
# a world of perception at your fingertips

Annual Report **1999**

COGECO

## Contents



# see further

COGECO is a diversified communications company with shares listed on the Montreal and Toronto Stock Exchanges. The Company strives to meet the communication needs of consumers and advertisers through cable distribution and broadcasting.

COGECO serves 831,000 basic cable service customers(1) in Canada, making it the fourth largest cable operator in Canada. Its cable subsidiary, Cogeco Cable Inc., is also a public company with shares listed on the Montreal and Toronto Stock Exchanges. Cogeco Cable is evolving to become one of Canada's major telecommunications companies, by building on its cable distribution base.

COGECO operates six television stations and two radio stations which broadcast on Quebec's major markets through its subsidiary Cogeco Radio-Television Inc. COGECO intends to remain at the forefront of the communications technologies that contribute to the expansion of its operations.

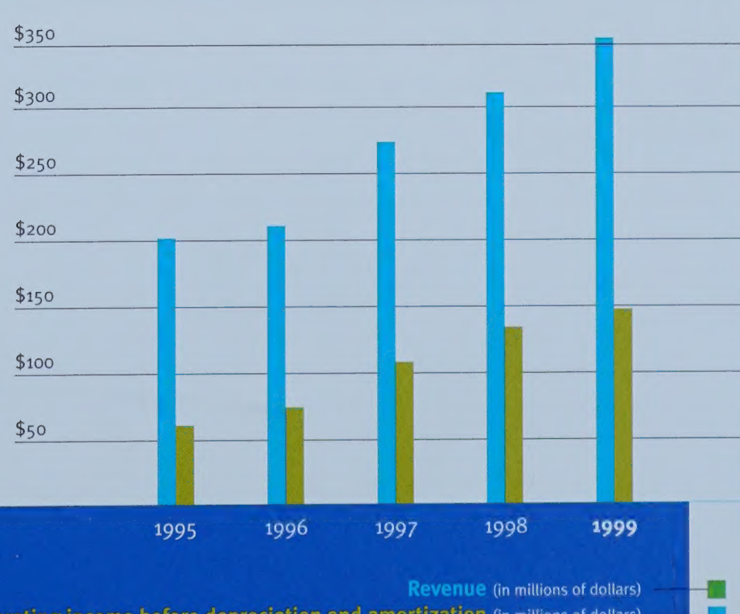
(1) On a pro forma basis reflecting the acquisition of Cableworks Communications as of September 30, 1999.

# Highlights

**Years ended August 31,**
(in thousands of dollars, except rates of return and ratios, per share data and human resources)

| | 1999 | 1998 | VARIANCE |
|---|---|---|---|
| **Operations** | | | |
| Revenue | $ 358,875 | $ 316,132 | 14 % |
| Operating income before depreciation and amortization | 148,009 | 134,429 | 10 |
| Net income excluding unusual items | 13,373 | 12,655 | 6 |
| Net income | 53,251 | 20,208 | 164 |
| Cash flow from ongoing operations | 103,136 | 89,162 | 16 |
| **Financial Condition** | | | |
| Total assets | $ 1,153,058 | $ 1,072,647 | 7 % |
| Total indebtedness | 492,952 | 635,884 | (22) |
| Shareholders' equity | 237,808 | 187,154 | 27 |
| **Rates of Return and Ratios** | | | |
| Operating margin before depreciation and amortization | 41.2 % | 42.5 % | |
| Return on average shareholders' equity | 25.1 % | 11.3 % | |
| Total indebtedness on operating income before depreciation and amortization | 3.3 | 4.7 | |
| Interest coverage | 3.1 | 2.8 | |
| **Per Share** | | | |
| Net income excluding unusual items | $ 0.84 | $ 0.80 | 5 % |
| Net income | 3.33 | 1.27 | 162 |
| Cash flow from ongoing operations | 6.45 | 5.61 | 15 |
| Shareholders' equity | 14.80 | 11.77 | 26 |
| Weighted average number of outstanding shares (in thousands) | 15,998 | 15,900 | 1 |
| **Human Resources** | | | |
| Number of employees (full-time equivalent) | 1,241 | 1,075 | 15 % |

**Revenue, Operating Income before Depreciation and Amortization**




communications
skills

1998-1999 has been both fruitful and profitable for COGECO. These satisfactory results have flowed from the acquisition of two television stations in Chicoutimi-Jonquière by the Media Sector as well as increased sales of tiered video services and high-speed Internet access services by subsidiary Cogeco Cable.

Excluding the unusual gain on dilution subsequent to two equity issues by Cogeco Cable as well as the impact of the sale of some cable systems and the write-off of less meaningful cable assets as well as the gain from the sale of our broadcasting towers, and the write-off of part of the investment in the TQS Network, net profit after income taxes has increased 6%, to reach $13 million. Revenue has reached $359 million, a 14% increase, attributable mostly to the Cogeco Cable subsidiary.

"Cogeco Cable's high-speed Internet access service marketed under the Rapidus™, Wave™ and @Home™ brand names, depending on the area, has enjoyed explosive growth, reaching more than 39,000 customers at August 31, 1999 compared to about 10,000 a year ago, nearly a threefold increase!"

# Report to Shareholders

In the Media Sector, subsidiary Cogeco Radio-Television has enjoyed a revenue increase of 14% to $34 million compared to last year, while operating income before depreciation and amortization has increased 11% to reach $8 million, mostly further to the acquisition of television stations CKTV-TV (formerly CKRS-TV) and CFRS-TV both in Chicoutimi-Jonquière, affiliated respectively to SRC and TQS, effective November 30, 1998.

The performance of our six television stations continues to be satisfactory both from an audience and profitability standpoint. Subsidiary Productions Carrefour has suffered a reduction in production hours due to the fact that private broadcast networks now have access to Quebec production tax credits which has caused them to pull more production in-house. Productions Carrefour is now reassessing its market strategy.

The third market position of CJMF-FM in Quebec City has been confirmed by the spring and summer 1999 audience ratings measurements, thus further consolidating the repositioning strategy undertaken a few years ago. Station CFGL-FM Laval/Montreal has been reformatted to "105.7 Rythme FM" in January 1999 and spring and summer ratings confirm increased audiences further to these changes that bode well for the future.

With regard to the Cable Sector, subsidiary Cogeco Cable has generated net after tax profits, excluding unusual items of $22 million, a 12% increase over last year. Revenue has increased by 13%, reaching $325 million. Cogeco Cable continues to be one of the few North American cable companies to report meaningful earnings. In the process, the company has issued $158 million in equity on very favorable market terms, $150 million of Senior Secured Debentures and secured a BBB investment grade rating from the credit rating agencies Dominion Bond Rating Service Limited and Standard & Poor's Ratings Service. COGECO's equity position was reduced from 58% to 47% in the process.

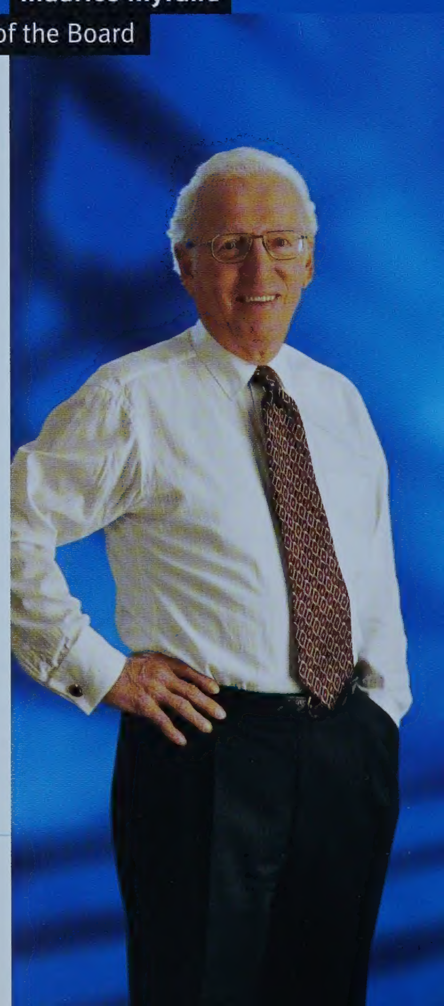
Cogeco Cable's geographic consolidation has been largely completed with the integration of the Windsor, Chatham, Leamington and Smiths Falls systems serving some 90,000 customers (concurrently with the disposition of some 90,000 customer systems in the western provinces) for the most part in early fall for the Ontario Division and of 16,400 customers in Valleyfield for the Quebec Division. On April 7, 1999, Cogeco Cable announced the acquisition, for $163 million in cash, of the shares of Cableworks Communications Inc. serving approximately 65,000 basic cable customers in territories adjacent to and interlocking with Cogeco Cable's existing service areas in the greater Hamilton region; this transaction was closed effective September 30, 1999.

The Ontario Division repackaged and relaunched its third discretionary tier in the early fall of 1998. We are pleased to report that these steps have been successful as penetration of the third discretionary tier to the number of basic customers, including the newly acquired systems, has risen from 47% to 58%, one of the highest penetration rates in Canada for this tier at comparable prices.

During the year, most of the few missing fiber optic links to complete the interconnection of Cogeco Cable's systems in the Windsor to Rimouski corridor were either built or obtained through further exchanges with other carriers. This infrastructure is key to the launch and growth of high-speed Internet, digital video and IP (Internet Protocol) telephony services, all of which are expected to represent close to one half of the company's total revenues within a five to seven-year horizon.

**Our customers highly value the reliability, speed and permanent connection of the Cogeco Cable service providing access to the Internet at bit rates up to 100 times faster than the telephone modem.**

**Maurice Myrand**
Chairman of the Board



Cogeco Cable's high-speed Internet access service marketed under the Rapidus™, Wave™ and @Home™ brand names, depending on the area, has enjoyed explosive growth, reaching more than 39,000 customers at August 31, 1999 compared to about 10,000 a year ago, nearly a threefold increase! Our customers highly value the reliability, speed and permanent connection of the Cogeco Cable service providing access to the Internet at bit rates up to 100 times faster than the telephone modem. Cogeco Cable has been and continues to be the leader in deploying CableLabs DOCSIS (Data Over Cable Service Interface Specifications) standard compliant modems in North America with some 30,000 Samsung modems in service. The DOCSIS platform ensures optimal bandwidth management at low modem unit costs because the technology is non-proprietary. Growth in revenue continues to be as strong as we enter the new fiscal year.

Louis Audet
President and Chief Executive Officer

Internet is shaping up to become the platform of choice for local and world scale Electronic Commerce where explosive volumes of transactions are growing along an exponential curve. Cogeco Cable is extremely well positioned to take advantage of the profound changes in which communities trade information, goods and services, both internally and with the outside world. Cogeco Cable's capital investments in broadband and two-way plant over the last seven years at levels about equal to internally generated cash flow are now beginning to yield meaningful dividends.

Currently, 75% of Cogeco Cable customers are served through two-way cable plant as had been announced last year. The plant rebuild schedule has been rearranged to ensure that substantial further improvements are realized in the early months of 1999-2000 to further enhance Cogeco Cable's ability to launch new services including in the newly acquired systems. For the first time in seven years, in fiscal 1998-1999, Cogeco Cable has elected to spend capital at a level 41% higher than internally generated cash flow, to reach $136 million compared to internally generated cash flow of $97 million. These capital expenditures

**Cogeco Cable is extremely well positioned to take advantage of the profound changes in which communities trade information, goods and services, both internally and with the outside world.**

are essentially incurred to service customers buying the new high growth services such as the high-speed Internet access service, the Cogeco Cable Digital Cable Service and the Cogeco Cable IP Telephony Service. It is expected that capital spending in excess of internally generated cash flow will only occur over the very few years coinciding with the introduction of these three services.

On August 25, 1999, Cogeco Cable announced that it would launch the Cogeco Cable Digital Service starting September 1, 1999 to be completed for the most part by December 31, 1999. About $20 million of the $50 million capital investment was incurred in 1998-1999. This important step was undertaken after careful testing of alternatives. The Cogeco Cable Digital Terminal, the DCT 2000, manufactured by General Instrument Corporation, to be installed initially in some 64,000 premium service households, will serve as the gateway for a wide range of entertainment, information and interactive programming. Network security is also substantially enhanced.

Cogeco Cable Digital Service customers have access to expanded video services, a sophisticated programming navigator and 30 CD quality audio programming alternatives with the ability to buy services of their choice on impulse through Cogeco Cable's two-way plant. Interestingly, television sets that are not equipped with a digital terminal in the home can continue receiving the existing service from Cogeco Cable for the same price as before the introduction of this new digital service option. Increased revenues will materialize through new cable specialty channels, near-video-on-demand channels, a monthly rental fee

(pending the availability of the CableLabs certified OpenCable™ standard set-top box in retail stores in early 2001), interactive programming of the Internet variety available on the television set, and, by far the most promising application, true video on demand with VCR-like capability with a large number of movie titles stored in high capacity servers located in cable network head-ends.

General Instrument has announced fall 1999 availability of the DCT-5000+ Digital Terminal incorporating enhanced memory, graphics and processing power, high-speed DOCSIS cable modem and DVC capability which Cogeco Cable intends to deploy in selected homes starting in early 2000. This in effect constitutes the advent of the single multi-purpose terminal into the home capable of providing access to all audio and video signals, in both analog and digital form, to high-speed Internet and to IP telephony services as well with a separate adapter.

On November 18, 1998, Cogeco Cable announced that it will gradually be offering, by the end of 1999, a local and long distance telephone service to its Ontario and Quebec customers, using its inter-city fiber optic network and further leveraging its Internet Protocol (IP) network already in place for Internet access. The launch will begin with a market trial of about 400 users in Hamilton, Ontario and Trois-Rivières, Quebec. Substantial customer feedback will be used to further refine the service then to be offered to up to approximately 2,000 paying customers, for a period of time prior to a full commercial launch in all Cogeco Cable territories.

**Cogeco Cable's entry in IP Telephony at this time, in partnership with world class suppliers, makes the Company a leader in its marketplace for advanced telecommunications services.**

Since that announcement, Cogeco Cable has been building its technical and organizational infrastructure to launch IP Telephony. Agreements are in place with Telcordia Technologies for the IP Telephony Call Agent Complex and Bell Canada for SS7 signaling and PSTN interconnections. DOCSIS 1.1 cable modems are currently available for testing purposes and are expected in an early market-ready stage. Cisco Systems will supply the majority of the IP infrastructure equipment and SAIC (Science Application International Corporation) Canada will operate and maintain the Call Agent Complex which reaches the other parts of the IP Telephony distributed infrastructure through redundant transmission links on Cogeco Cable's own fiber optic system and on circuits leased from qualified long distance carriers. The company's billing and customer care system, Intelecable (supplied by CableData), is being linked to the telephony system to ensure the integration of IP Telephony services with Cogeco Cable's other services and to provide customers with one point of contact for their advanced telecommunications requirements. An existing Inter-Exchange Carrier will carry long distance traffic outside of Cogeco Cable's own network.

Cogeco Cable's entry in IP Telephony at this time, in partnership with world class suppliers, makes the Company a leader in its marketplace for advanced telecommunications services and provides it with the opportunity to lead in the developments and opportunities that will result from this new area of telecommunications.

The launch of Cogeco Cable's IP Telephony Service completes, at the conceptual level, the full service offering discussed in this annual report in prior years. Cogeco Cable can then count on four distinct appealing revenue streams: basic cable, digital video cable, high-speed Internet and Telephony, which offer Cogeco Cable the opportunity to roughly quadruple sales to each individual customer subject to attractive packaging, pricing and invoicing and, of course, to the high quality of each component in the bundle. Quality control and the ability to listen to customers will be at the heart of the Company's efforts in years to come.

The full product bundle will be both a high growth revenue source and a retention tool to face competitors who are now well entrenched, particularly the Direct-to-Home Satellite service providers. While we remain convinced that the breadth of options available through cable at low prices enables Cogeco Cable to be very competitive, we can expect some basic customer erosion to occur in future years that will be far more than compensated by the sale of the new services which will ensure the continued growth and prosperity of your Company. To date, the number of basic service customers served by Cogeco Cable has continued to grow. In 1998-1999, the number of basic service customers remained relatively stable despite competition from Direct-to-Home Satellite service providers. We intend to compete vigorously to continue to minimize customer losses and maximize opportunities.

The value of COGECO shares has essentially fluctuated in synchronism with that of its main subsidiary Cogeco Cable. These fluctuations which parallel U.S. public cable company variations have resulted largely from investors' anticipation of further consolidation subsequent to the acquisition of TCI and Media One by AT&T in the U.S.A. as well as the Internet initial public offering frenzy. We can only hope that markets will see beyond the short term consolidation possibilities and also factor into their valuations the value of future cash flow to be generated by cable companies as extremely well positioned suppliers of the full range of telecommunications products now and into the future

We wish to take this opportunity to welcome Mr. Jan Peeters who was elected to the Board of Directors of your company at the Annual General Shareholders' meeting held on December 15, 1998. His contribution to Board deliberations is extremely helpful.

We would also like to thank the Board of Directors for the sound direction and planning which are instrumental in keeping COGECO at the forefront of innovation, striving to achieve high service standards for our customers as well as sound financial returns for our shareholders.

We wish to take this opportunity to thank the staff in both the Media and Cable Sectors who continue to demonstrate care and dedication in pursuing multiple initiatives in parallel as well as being mindful of the needs and requirements of our valued customers.

**Maurice Myrand**
Chairman of the Board

**Louis Audet**
President and Chief Executive Officer


# listening skills

The following pages constitute a more in-depth analysis of the Company's operations, current financial position and future prospects. For the purpose of this analysis, the operations of COGECO have been segmented into two sectors: "the cable sector", which refers to COGECO's 46.8% owned subsidiary Cogeco Cable Inc. ("Cogeco Cable"), and "the media sector", which refers to its wholly-owned subsidiary Cogeco Radio-Television Inc. ("CRTI"), and to portfolio investments in the broadcasting industry. COGECO's most significant portfolio investment in the broadcasting industry is its 14.5% equity interest in the capital of TQS Inc., the owner of the TQS network. The media sector's activities are entirely concentrated in the broadcasting and television production field.

The Internet phenomenon continued its worldwide lightning growth in the past year, translating into a strong increase in the number of cable modems for the cable industry in North America, particularly in Canada.

# Management's Discussion and Analysis

This analysis should be read in conjunction with the Company's consolidated financial statements beginning on page 25. This section contains certain forward-looking statements concerning the expected future performance of the Company, where actual results may differ materially from expected results.

## Improving Operating Results

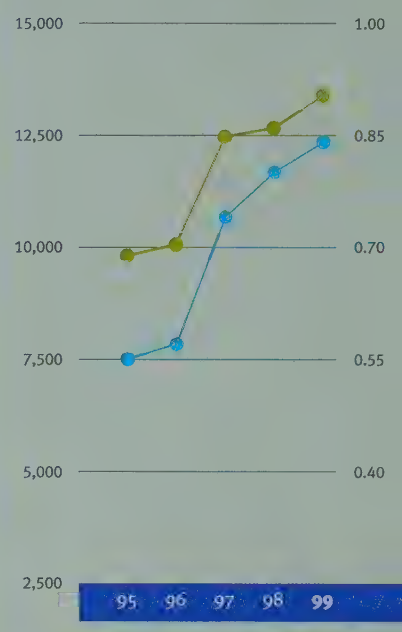
The Company's revenue increased by $42.7 million or 14%, from $316.1 million to $358.9 million. The revenue increase stemmed from the combined effect of a revenue increase of $38.5 million (13%) in the cable sector and of $4.2 million (14%) in the media sector. The revenue increase in the cable sector is due, in part, to the contribution of additional cable systems acquired or obtained via exchanges net of disposals and, more importantly, to increased revenue related to the third discretionary tier of specialty services offered in Ontario and the high-speed Internet access service. The revenue increase in the media sector is mainly attributable to the acquisition, effective November 30, 1998, of the twin television stations CKTV/CFRS in Chicoutimi/Jonquière, Quebec.

Operating costs amounted to $210.9 million in 1998-1999, compared to $181.7 million in 1997-1998. Operating income before depreciation and amortization for 1998-1999 increased over 1997-1998, from $134.4 million to $148.0 million, an increase of 10%.

Depreciation and amortization rose 19%, from $43.8 million to $52.2 million in 1998-1999 and financial expense decreased 1%, from $47.7 million to $47.3 million in 1998-1999. The increase in depreciation and amortization stemmed from the cable systems modernization program, the capital expenditures related to the high-speed Internet access service and the cable systems acquisitions in 1997-1998. Despite capital expenditures greater than cash flow generated from operations and acquisitions financed by debt, financial expense decreased due to the sale of cable systems in Western Canada for $48.3 million in cash, the issuance of 6.45 million subordinate voting shares of Cogeco Cable for net proceeds, taking into consideration issuance costs net of related income taxes, of $154.0 million and a drop of approximately 0.35% in the average debt interest rate.

In 1998-1999, unusual items amounted to $46.1 million compared to $20.2 million in 1997-1998. During fiscal 1998-1999, unusual items attributable to the media sector resulting in a net loss of $2.2 million were comprised of a gain of $1.9 million on the sale of transmission towers owned by CRTI and a reduction in the value of the investment in TQS inc. of $4.1 million. In addition, unusual items attributable to the subsidiary Cogeco Cable resulting in a net gain of $48.3 million were comprised of a gain on dilution of $38.8 million following the issue of 6.45 million subordinate voting shares of Cogeco Cable, a gain of $21.4 million on the

**Net Income and Earnings per Share**
(Excluding unusual items)




Net income excluding unusual items (in thousands of dollars)
Earnings per share excluding unusual items (in dollars)

**Inter-City Fiber Deployment**

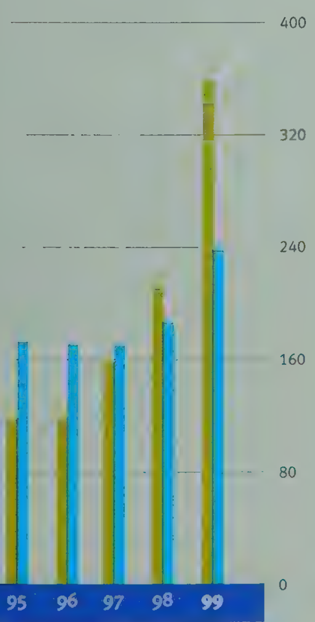
sale of systems located in Weyburn and Estevan, Saskatchewan, and Chilliwack, British Columbia and a $11.9 million write-off of certain less strategic assets. During 1997-1998, the unusual item attributable to the media sector was comprised of a $876,000 gain realized on the sale of the Company's equity participation in Le Groupe Coscient Inc. In addition, unusual items attributable to the subsidiary Cogeco Cable were comprised of a gain of $19.5 million realized on the sale of cable systems in Alberta and British-Columbia transferred to Shaw Communications Inc., a gain on dilution of $135,000 resulting from the issuance of 78,125 subordinate voting shares of Cogeco Cable and a $250,000 loss resulting from the deductible portion of the insurance indemnity of the January 1998, ice storm in Quebec and Ontario.

Net income excluding unusual items grew by 6%, from $12.7 million, in 1997-1998, to $13.4 million in 1998-1999. Net earnings per common share, excluding unusual items, rose by 5%, from $0.80 in 1997-1998 to $0.84 in 1998-1999. The weighted average number of shares outstanding did remain relatively stable increasing from 15.9 million in 1997-1998 to 16.0 million in 1998-1999. Including unusual items, net income for 1998-1999 amounted to $53.2 million or $3.33 per share, compared to $20.2 million or $1.27 per share in 1997-1998.

**With its 831,000[1] basic service customers, Cogeco Cable is the fourth largest cable operator in Canada.**

[1] On a pro forma basis reflecting the acquisition of Cableworks Communications Inc. as of September 30, 1999.

**Market Capitalization and Shareholders' Equity**
(in millions of dollars)




## Financial and Operational Review by Sector

### Cable Sector

#### Clientele entirely located in Ontario and Quebec

With its 765,806 basic service customers as at August 31, 1999, Cogeco Cable is the fourth largest cable operator in Canada. During the fiscal year 1998-1999, Cogeco Cable completed the clustering of its cable systems. They are now regrouped in Ontario and Quebec following the sale of systems located in Weyburn and Estevan, Saskatchewan, in December 1998 and in Chilliwack, British Columbia, in May 1999. The aggregate number of basic service customers, including the acquisition of Cableworks Communications Inc. ("Cableworks") completed on September 30, 1999, is approximately 831,000, of which approximately 581,000 are in Ontario (70%) and approximately 250,000 are in Quebec (30%). Following the acquisition of the Cableworks systems, 53% of Cogeco Cable's basic service customers are located in the corridor extending from Oakville to Windsor, a Southern Ontario territory with attractive growth potential.

## Technical infrastructure

### Internet and Digital Television

The Internet phenomenon continued its worldwide lightning growth in the past year, translating into a strong increase in the number of cable modems for the cable industry in North America, particularly in Canada.

The DOCSIS 1.0 standard (Data Over Cable Service Interface Specifications) was formally approved at the beginning of 1999 and more than ten (10) cable modem manufacturers today offer a DOCSIS 1.0 modem certified by CableLabs. All of these modems are compatible with each other and can operate on the same IP channel of the same cable network.

Cogeco Cable was a very early adopter of the DOCSIS standard and began deploying DOCSIS 1.0 modems in August 1998. Today, most of its systems operate with DOCSIS modems.

DOCSIS 1.0 modems can operate on the same IP channel as the future DOCSIS 1.1 modems, which will be required to offer real-time services on IP, such as telephony and videophony. DOCSIS 1.1 modems will allow prioritization of the signal packets that must be transmitted in real time, so as to ensure a continuous transmission flow.

CableLabs is continuing its work on standardizing DOCSIS 1.1 and Cogeco Cable estimates that the first standardized modems will be available toward the middle of year 2000. In addition, through its "Packet Cable™" initiative, CableLabs is continuing its efforts to establish all of the standards, beyond DOCSIS 1.1, that will allow the supply of a local telephony service in particular, and other real-time services, such as videophony, by using the IP protocol.

During fiscal year 1998-1999, Cogeco Cable continued the development of its long-distance fiber optic network, particularly by adding the Sarnia/Chatham/Windsor sections and the Rimouski/Mont-Joli/Campbellton section. Cogeco Cable today has a long-distance fiber optic network extending over 3,200 kilometers from Windsor to Campbellton and including 51,000 kilometers of optical fiber.

The fiber optic network covering all of Southern Ontario is now equipped with SONET OC-48 transmission capacity. Activation in OC-48 of part of the Burlington/Montreal link and of the majority of Quebec's urban centers will be completed by early 2000.

On the digital video compression (DVC) front, Cogeco Cable entered into a procurement agreement with General Instrument Corporation for the installation of digital head-ends at its Trois-Rivières, Quebec and Burlington, Ontario centers, and for the deployment of digital video compression technology on the majority of its systems. The complete replacement of the existing analog equipment with model DCT-2000 DVC set-tops began in September 1999 and will be completed for about 80% of the systems around December 31, 1999, and for about 95% of them by June 1, 2000. These units allow Cogeco Cable to offer from 6 to 10 video signals in the same bandwidth that was previously required to distribute only one in analog mode, thus multiplying network capacity. The units initially deployed allow real-time ordering of movies or other programs, without having to make a telephone call. They are also powerful enough to allow the eventual offering of a video on demand ("VOD") service, an Internet on TV service and an e-mail on TV service.

Starting at the beginning of 2000, Cogeco Cable plans to introduce General Instrument's new DCT-5000+ digital set-top, which will allow it to offer even more highly evolved interactive services. The DCT-5000+ will also have a pre-certified built-in DOCSIS 1.1 modem that will allow Cogeco Cable to offer a high-speed Internet service both on television and on a personal computer, without having to use a separate cable modem, and to offer a local telephony service on IP, by means of an adapter connected to the modem output.

## Telephony

The launch of Cogeco Cable's IP Telephony service, initially targeted at high-speed Internet customers within the Cogeco Cable service area will take place in Hamilton, Ontario and Trois-Rivières, Quebec in December 1999.

Cogeco Cable will offer a fully featured local and long distance telephone service. In addition to the commonly offered adjuncts to local service such as "0" Operator, 411, 911, "Message Relay Service" and a listing in the telephone directory, Cogeco Cable will offer attractively priced packages of features and long distance calling options not currently available in the marketplace. As well "Local Number Portability" will be offered to those who wish to transfer their local service from an existing service provider and retain their telephone number.

Initially, the service will be offered to 200 customers in each trial market to explore in collaboration with them the opportunities available with the product. This extends to voice applications consistant with the Internet concept of doing service development hand in hand with the users. Following this initial phase, the offer will be extended to approximately 2,000 paying customers over a broader market range in the two market trial locations.

The quality, value and richness of the feature set will address customer expectations for this new service. The benefits of the Internet are recognized for its capability to access locations anywhere in the world for comparatively low prices. IP Telephony begins the process of bringing similar market dynamics to the voice world. As more IP Telephony systems develop in North America and other locations around the world, IP technology will bring to voice a variety of data/voice and image options, and much more interesting pricing packages in comparison with today's conventional offers.

## Improving operating results

### Revenue

Cogeco Cable's revenue increased by $38.5 million or 13%, from $286.9 million to $325.4 million in 1998-1999. Part of the growth, approximately $14.8 million, is due to the exchange of cable systems with Shaw Communications Inc. in June 1998 and the acquisitions of Câblodistribution Le Rocher inc. on December 15, 1997 and of Valleyfield Transvision inc. and Emtel inc. on September 1, 1998 net of disposals of cable systems located in Weyburn and Estevan, Saskatchewan, in December 1998, and Chilliwack, British Columbia, in May 1999. Internal revenue growth, amounting to approximately $ 23.7 million, was mainly due to the contribution of new and expanded services and rate increases as discussed below.

- On January 1, 1999, the monthly basic service rate in Ontario was increased on average by about $0.65 following the addition of six specialty services. On January 1, 1999, Cogeco Cable proceeded to review the rates applicable to the discretionary tiers existing in Ontario. This resulted in an increase in the monthly rates for individual residential customers from $1.00 to $3.80 in most systems in Ontario. The rate increases in Ontario provided for approximately $4.1 million in additional revenue in 1998-1999. On an annual basis and according to the number of customers subscribing to those various services as at August 31, 1999, these rate increases should contribute about $5.9 million to revenue.
- The launching of the third discretionary tier in Ontario on the newly acquired systems (Windsor, Chatham, Leamington, Smiths Falls and the neighbouring regions) and the increase in this tier's penetration rate in the regions already served led to the addition of 99,130 customers to this tier. In 1998-1999, this third tier generated approximately $11.0 million in additional revenue. As at August 31, 1999, the penetration rate of the third discretionary tier had reached 58% of the basic service customers compared to 47% as at August 31, 1998, thanks to targeted marketing efforts and a change in the programming package, to which Movie Pix and The Family Channel, previously pay TV channels, were added.

- The reduction in the monthly subscription rate from $54.95 to $39.95 and the addition of the @Home™ service in Ontario contributed to an increase in the penetration of high-speed Internet access in the regions where the service was offered. The addition of more than 28,700 new customers to high-speed Internet access service generated additional revenue of around $7.2 million.
- Finally, the number of basic service customers, excluding the overall impact of the acquisitions and disposals, has remained relatively stable despite intensified competition. However, subscriptions to pay television services, excluding the overall impact of the acquisitions and disposals, declined by 8,205 customers mainly due to the transfer of The Family Channel service in the newly acquired systems (Windsor, Chatham, Leamington, Smiths Falls and the neighbouring regions) and the Movie Pix service to the third discretionary tier.

### Operating costs

Operating costs are up by 16%, increasing from $160.2 million to $186.6 million in 1998-1999 as a result of an increase of $15.6 million in network fees, $0.8 million in COGECO management fees and $10.0 million in other operating costs. Most of this growth is attributable to the increase in the number of customers for the third discretionary tier in Ontario and for high-speed Internet access service, as well as the addition of customers through acquisitions net of disposals.

### Cable Sector

| **Years Ended August 31,** (In thousands of dollars, except for profitability ratios) (1) | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| Revenue | $ 325,367 | $ 286,858 | $ 237,275 | $ 152,989 | $ 138,194 |
| Operating income before depreciation and amortization | 138,796 | 126,697 | 103,120 | 66,158 | 56,928 |
| Depreciation and amortization | 49,900 | 42,050 | 33,757 | 20,081 | 16,462 |
| Operating income | 88,896 | 84,647 | 69,363 | 46,077 | 40,466 |
| Capital expenditures | 136,440 | 80,081 | 59,533 | 34,650 | 39,785 |
| Net assets employed | 1,004,772 | 951,649 | 816,928 | 396,061 | 375,826 |
| Operating margin before depreciation and amortization | 42.7% | 44.2% | 43.5% | 43.2% | 41.2% |
| Operating income before depreciation and amortization / Average net assets employed | 13.8 | 14.3 | 17.0 | 17.1 | 15.9 |
| Operating margin | 27.3 | 29.5 | 29.2 | 30.1 | 29.3 |
| Operating income / Average net assets employed | 8.8 | 9.6 | 11.4 | 11.9 | 11.3 |

(1) To determine the sector's normalized contribution, unusual items are not included in the above table.

### Operating margin

Operating income before depreciation and amortization increased by 10% to $138.8 million in 1998-1999, compared to $126.7 million in 1997-1998. The additional high-speed Internet access and third discretionary tier customers in Ontario, as well as the addition of customers through acquisitions net of disposals mainly contributed to the growth of operating income in 1998-1999. Operating margin before depreciation and amortization decreased from 44.2% to 42.7% as a result of the greater share of network fees for the third discretionary tier.

## Media Sector

CRTI operates six French-language television stations and two French-language radio stations. The television stations CKTM-TV Trois-Rivières, CKSH-TV Sherbrooke and CKTV-TV Chicoutimi/Jonquière are affiliated with the Canadian Broadcasting Corporation's ("CBC") French network, Société Radio-Canada, while the television stations CFKM-TV Trois-Rivières, CFKS-TV Sherbrooke and CFRS-TV Chicoutimi/Jonquière are affiliated with the Télévision Quatre Saisons (TQS) network. The 105.7 Rythme FM radio station covers the entire Greater Montreal region, while the CJMF-FM 93.3 radio station covers the Province of Quebec's capital and surrounding areas. Furthermore, Les Productions Carrefour Inc., a CRTI wholly owned subsidiary, produces programs for several French-language television networks and various audio-visual content for more specialized purposes.

**Media Sector**

**Years Ended August 31,**
(In thousands of dollars, except for profitability ratios) (1)

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| Revenue | **$ 33,508** | $ 29,274 | $ 37,241 | $ 61,960 | $ 68,703 |
| Operating income before depreciation and amortization | **7,867** | 7,113 | 7,719 | 9,147 | 9,308 |
| Depreciation and amortization | **2,108** | 1,717 | 2,151 | 4,020 | 3,858 |
| Operating income | **5,759** | 5,396 | 5,568 | 5,127 | 5,450 |
| Capital expenditures | **1,720** | 2,804 | 1,901 | 1,566 | 2,412 |
| Net assets employed | **34,835** | 32,558 | 31,375 | 54,041 | 77,978 |
| Operating margin before depreciation and amortization | **23.5%** | 24.3% | 20.7% | 14.8% | 13.6% |
| Operating income before depreciation and amortization / Average net assets employed | **22.6** | 22.2 | 18.1 | 13.9 | 11.2 |
| Operating margin | **17.2** | 18.4 | 15.0 | 8.2 | 7.9 |
| Operating income / Average net assets employed | **16.5** | 16.9 | 13.0 | 7.8 | 6.5 |

(1) To determine the sector's normalized contribution, unusual items are not included in the above table.

## Financial results

Media sector revenue increased by \$4.2 million, from \$29.3 million in 1997-1998 to \$33.5 million in 1998-1999. The revenue increase in the media sector is mainly attributable to the acquisition, effective November 30, 1998, of the twin television stations CKTV/CFRS in Chicoutimi/Jonquière, Quebec.

Operating costs increased from \$22.2 million in 1997-1998 to \$25.6 million in 1998-1999, or 15% mainly due to the acquisition of the television stations CKTV/CFRS. Operating income before depreciation and amortization increased by 11%, from \$7.1 million in 1997-1998 to \$7.9 million in 1998-1999. The operating margin before depreciation and amortization from the broadcasting operations slightly decreased from 24.3% in 1997-1998 to 23.5% in 1998-1999 due to a lower operating margin achieved on the television stations acquired and due to the lower profitability of the 105.7 Rythme FM radio station.

## Television

In 1998-1999, CRTI's television stations maintained their relative audience shares in Trois-Rivières, Sherbrooke and Chicoutimi/Jonquière. Revenue increased by 22% mainly due to the acquisition of the television stations CKTV/CFRS in Chicoutimi/Jonquière, Quebec. Operating expenses increased by 24% from the previous year.

A new affiliation agreement for the three television stations affiliated with the French-language television network of the CBC has been renewed, in April 1999, for a three-year period ending August 2002. The affiliation agreements with the TQS network will also expire in 2002.

**Cash flow from ongoing operations rose from \$89.2 million in 1997-1998 to \$103.1 million in 1998-1999, an increase of 16% mainly attributable to the financial results of the cable sector.**

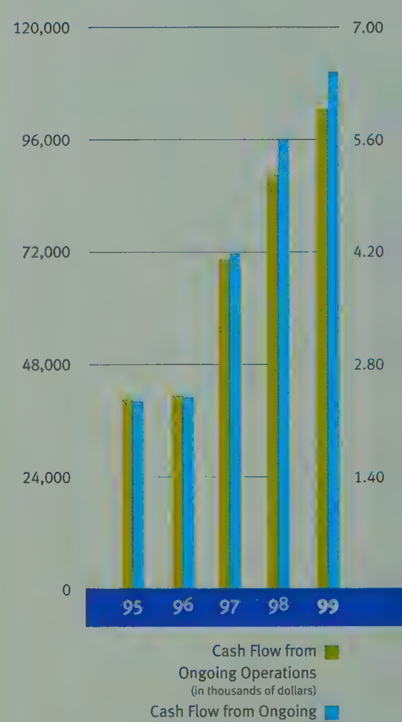
## Radio

On the radio side, revenue remained at the same level as in 1997-1998. In January 1999, changes were made to the CFGL radio station's image and last spring's BBM survey confirmed substantial increases in listening hours. This station has been renamed 105.7 Rythme FM and an extensive advertising campaign has supported the relaunch of this station. Operating expenses increased by 5% from the previous year.

## Production

On the production side, revenue has grown by 22%, mainly as a result of new programs such as "Le monde de Clémence" and "Liza" produced for Radio-Canada and "Black-out" produced for the TQS network. The program "Biographies" was nominated for a Gemini Award. For fiscal year 1999-2000, Productions Carrefour's bookings include some new productions for French-language television, including programs for Radio-Canada, the TQS network and Canal D.

**Cash Flow from Ongoing Operations**



## Cash Flow From Operations

Cash flow from ongoing operations rose from $89.2 million in 1997-1998 to $103.1 million in 1998-1999, an increase of 16% mainly attributable to the financial results of the cable sector. On a per share basis, the cash flow amounted to $6.45 in 1998-1999, compared to $5.61 in 1997-1998, a growth of 15%.

## Acquisitions and Disposals

On September 1, 1998, the cable sector completed the acquisition of Valleyfield Transvision inc. and Emtel inc. in consideration of a sum of $13.5 million in cash financed from available bank credit. These companies held cable systems in Valleyfield, Quebec, serving approximately 16,400 basic service customers.

On December 17, 1998, Cogeco Cable sold its cable systems located in Weyburn and Estevan, Saskatchewan, and serving approximately 7,200 basic service customers, in consideration of a sum of $10.7 million in cash. On May 31, 1999, Cogeco Cable sold its cable system in Chilliwack, British Columbia, serving approximately 20,500 basic service customers, in consideration of a sum of $37.6 million in cash. The Chilliwack system was the last Cogeco Cable system located outside the provinces of Quebec and Ontario. The net proceeds of $48.3 million from the sale of these systems served to reduce Cogeco Cable's bank indebtedness.

On April 7, 1999, Cogeco Cable announced that it had signed an agreement with the shareholders of Cableworks for the acquisition of cable systems serving approximately 65,000 basic service customers. Cableworks operates cable systems covering extensive territories in Southern Ontario, including part of the cities of Hamilton and Stoney Creek, the municipalities of Fergus, Grimsby and Halton and the neighbouring regions. In April 1999, Cogeco Cable paid a $5.0 million cash deposit and on September 30, 1999, Cogeco Cable completed this acquisition with a cash instalment, subject to closing adjustments, of $157.5 million financed from its available bank credit.

On the broadcasting side, CRTI has acquired Radio Saguenay Ltée who owns the television stations CKTV-TV and CFRS-TV located in Chicoutimi/Jonquière. The transaction was effective November 30, 1998. The $6.1 million purchase price was financed through existing credit facilities.

## Capital Expenditures and Deferred Charges

Capital expenditures amounted to $138.5 million in 1998-1999, compared to $83.4 million in 1997-1998. The increase is mainly due to Cogeco Cable's systems modernization program, capital expenditures related to the high-speed Internet access service and the launch of the digital service. For 1999-2000, the Company intends to invest approximately $155 million in its capital expenditure program, approximately $153 million of which should be directed toward the cable television sector. Management believes that it has sufficient liquidity to finance the capital expenditure program through cash flow from ongoing operations and its undrawn lines of credit with financial institutions.

The increase in deferred charges of $14.1 million during fiscal year 1998-1999 is mainly due to the cable sector's marketing expenses used to launch the third discretionary tier in Ontario and the high-speed Internet access service in the regions newly served.

## Financing

In 1998-1999, the Company significantly strengthened the capital structure of its principal subsidiary Cogeco Cable:

- On January 7 and June 1, 1999, the cable sector through its subsidiary Cogeco Cable respectively completed the issuance of 3.45 million subordinate voting shares at a price of $19.35 per share and the issuance of 3.0 million subordinate voting shares at a price of $30.50 per share for total net proceeds, taking into consideration issuance costs net of related income taxes, of $154.0 million that was used to repay part of bank debt. During the previous year, on December 15, 1997, Cogeco Cable had issued 78,125 subordinate voting shares at a price of $12.80 per share for an amount of $1 million to pay part of the purchase price of the Grand-Mère, Quebec system;

- On June 4, 1999, the cable sector through its subsidiary Cogeco Cable completed a public issue of 6.75% Senior Secured Debentures, Series "1", for an amount of $150 million. The debentures, issued for a 10-year term maturing June 4, 2009, are redeemable at Cogeco Cable's option, bear interest at the annual rate of 6.75% payable semi-annually, and are indirectly secured by a first fixed and floating charge and security interest on the assets of this company and its principal subsidiaries. The proceeds of approximately $149 million net of brokerage fees served to reduce a part of bank debt for this sector.

**During 1998-1999, the Company declared a dividend of $0.21 per share, compared to $0.20 per share in 1997-1998.**

The objective of this issue was to increase the fixed interest rate debt portion, extend the maturity of a portion of Cogeco Cable's long-term debt and diversify its sources of financing.

- The newly issued debentures by Cogeco Cable were rated BBB/stable by the credit rating agencies Standard & Poor's Ratings Service and Dominion Bond Rating Service Limited. Moreover, these credit rating agencies awarded a BBB - rating to the 8.44% Second Secured Debentures, Series "A" issued previously. These "investment grade" ratings reflect Cogeco Cable's conservative capital structure, the relative stability of its operations and the value of its cable systems.

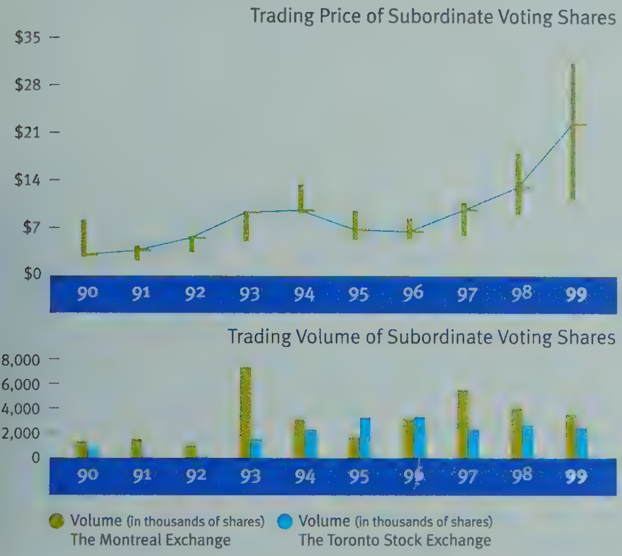
During 1998-1999, the Company declared a dividend of $0.21 per share, compared to $0.20 per share in 1997-1998, corresponding to a quarterly dividend of $0.0525 per share in 1998-1999 and $0.05 per share in 1997-1998, payable to holders of subordinate and multiple voting shares. The dividends of 1998-1999 and 1997-1998 represent 25% respectively of net income excluding unusual items.

On July 20, 1999, the Company announced its intention to proceed with an issuer bid in the normal course of business. This bid provided for the purchase for cancellation of a maximum of 250,000 subordinate voting shares, representing less than 5% of the issued and outstanding shares of this class. During 1998-1999, the Company purchased for cancellation 9,400 subordinate voting shares at an average

## Subordinate Voting Share Price and Ratios

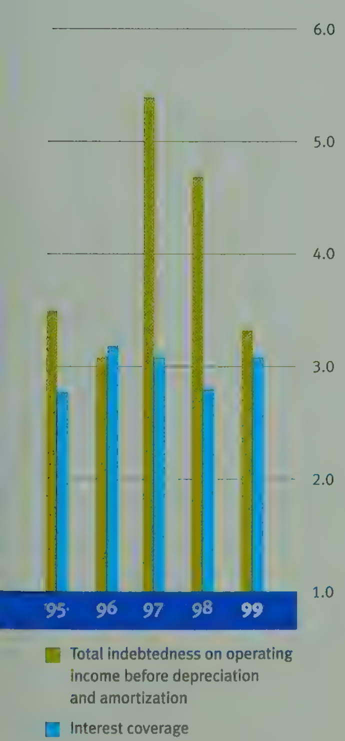
| Years ended August 31, (in dollars, except ratios) | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Subordinate Voting Share Price | $ 2.85 | $ 3.90 | $ 5.75 | $ 9.50 | $ 9.38 | $ 6.63 | $ 6.70 | $ 9.95 | $13.25 | $22.30 |
| **Per share** | | | | | | | | | | |
| Cash flow from ongoing operations | 1.20 | 1.32 | 2.21 | 2.36 | 2.14 | 2.34 | 2.39 | 4.18 | 5.61 | 6.45 |
| Shareholders' equity | 6.50 | 6.30 | 6.24 | 9.20 | 9.58 | 9.75 | 9.64 | 10.74 | 11.77 | 14.80 |
| Price / Cash flow from ongoing operations | 2.4 | 3.0 | 2.6 | 4.0 | 4.4 | 2.8 | 2.8 | 2.4 | 2.4 | 3.5 |
| Price / Shareholders' equity | 0.4 | 0.6 | 0.9 | 1.0 | 1.0 | 0.7 | 0.7 | 0.9 | 1.1 | 1.5 |

**Trading Statistics**
Year ended August 31 (in dollars)




**Price/Cash Flow from Ongoing Operations and Price/ Shareholders Equity**


**Leverage and Interest Coverage Ratio**




price of $19.57 per share. In 1997-1998, the Company had purchased for cancellation 44,500 subordinate voting shares under its normal course issuer bid at an average price of $13.82 per share.

## Capital Structure

As at August 31, 1999, shareholders' equity amounted to $237.8 million, as opposed to $187.2 million a year ago. As at August 31, 1999, the Company's total indebtedness net of cash and short-term investments was $493.0 million compared to $635.9 million on the same date last year. The decrease in indebtedness is mainly attributable to the issue of 6.45 million subordinate voting shares of Cogeco Cable for net proceeds, taking into consideration issuance costs net of related income taxes, of $154.0 million. As at August 31, 1999 the total amount of indebtedness net of cash and short-term investments was at fixed rates through long-term

loans and financial instruments, while last year this proportion was 69%. Following the acquisition of Cableworks on September 30, 1999, 82% of the total amount of indebtedness net of cash and short-term investments was at a fixed rate. As at August 31, 1999, the weighted average interest rates on the fixed rate portion was 7.7%, compared to 7.9% on the same date last year. Long-term debt average term was 7.5 years as at August 31, 1999 and 5.6 years last year.

During fiscal 1998-1999, the Company has significantly improved its financial leverage ratios:

- The total indebtedness net of cash and short-term investments to shareholders' equity ratio was 2.1 as at August 31, 1999, compared to 3.4 in August 1998.
- Operating income before depreciation and amortization is one of the main benchmarks that determines the Company's ability to finance its current operations and the debt service. The Company improved its total indebtedness net of cash and short-term investments on operating income before depreciation and amortization ratio (on an annualized fourth-quarter basis), reducing it from 4.5 as at August 31, 1998, to 3.4 as at August 31, 1999. Moreover, the Company improved its financial expense coverage by operating income before depreciation and amortization (on an annualized fourth-quarter basis) from 2.8 in 1997-1998 to 3.4 in 1998-1999.
- COGECO intends to maintain a conservative capital structure for its subsidiary Cogeco Cable in order to maintain Cogeco Cable's "investment grade" credit rating that allows it quick access to the public debt market at advantageous cost to finance internal and external growth opportunities.

The Company is up to date in the payment of financial expense and capital amounts on its borrowing and satisfies the various conditions stipulated in its financing agreements.

The Company has a $45 million term facility and a $5 million operating line of credit with financial institutions, which mainly serve to meet the general needs of the media sector. The Company considers that it has sufficient cash flow from operations and liquidity to meet its foreseeable needs. Moreover, the cable sector benefits from a $700 million revolving term facility and a $25 million operating line of credit with financial institutions. Of these facilities, $176.9 million was utilized in the cable sector and $31.5 million was used in the media sector as at August 31, 1999. The credit facilities of the cable sector are not guaranteed by the Company.

## Uncertainties and principal risk factors

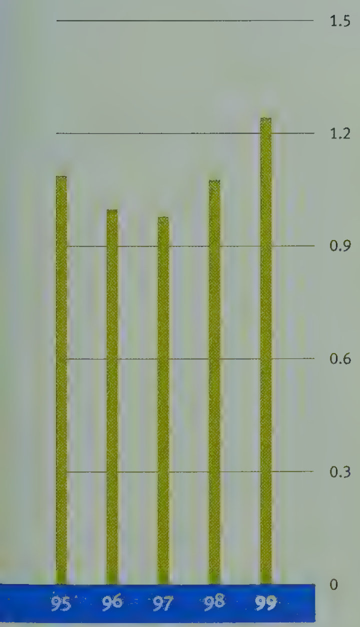
The Company is active in the Media Sector and in the Cable Sector. The uncertainties and risk profile experienced in each of these sectors are quite different. The Media Sector is mostly influenced by the conditions affecting advertising markets, the cost and appeal of programming content broadcast by the stations, and network-affiliate station relationships. The Cable Sector is mostly influenced by evolving technology, the need to maintain extensive wireline distribution networks, and the attractiveness and value of broadcast and telecommunications services or service bundles delivered over these networks. Both sectors are subject to a regulatory framework. Since the Cable Sector accounts for most of the consolidated revenue, cash flows and assets of the Company, the uncertainties and risks specific to this sector have a greater potential impact on consolidated results.

Cable distribution is a capital intensive business activity, and the environment in which it is conducted continues to evolve rapidly. The Cable Sector is faced with the challenge of committing extensive capital resources, on a timely basis, to cable plant acquisition and improvement, based largely on expected future broadband and interactive services and markets over the useful life of this cable plant. The Company assesses on an ongoing basis these factors and trends in Canada and abroad. This assessment includes consideration of risks in three basic areas of concern: developments in broadband, interactive and other telecommunications technology; the impact of competition and the relative competitive advantage of cable over other wireline and wireless competitors in the markets served by the Cable Sector; and developments in the regulatory arena during the transition to a converging market-driven telecommunications world.

Management considers that cable, with its direct broadband wireline connection to a large pool of commercial and residential premises, is very well positioned to remain the principal conduit for the delivery of traditional broadcast video and audio services, as well as to become a preferred conduit for a variety of new value-added video, voice and data services to customers in cabled areas. This view is supported by the huge investments made recently in the North American cable industry by very large incumbent players from the telephone and computer industries. While technology continually improves for the various alternative forms of broadband delivery, cable remains uniquely poised, in management's view, to benefit from developments in IP-based telecommunications technology and related applications, which are already

**Cable is very well positioned to become a preferred conduit for a variety of new value-added video, voice and data services to customers in cabled areas.**

**Number of Employees**
(In thousands)




(Full-time equivalent)

hugely successful and are expected to support almost all telecommunications traffic world-wide by the end of the next decade. However, as IP-based telecommunications become more widely implemented by all telecommunications carriers, cable's advantage as a preferred conduit for broadband telecommunications services may be eroded.

In Canada, the markets for broadcasting distribution and Internet access services, in which the Cable Sector is active, can already be characterized as very competitive, but rivalry in these markets may further increase as existing players strive to acquire market share and new players attempt to enter these markets. In spite of the competitive environment, the Cable Sector has managed, during the last fiscal year, to prevent significant erosion of its customer base for basic cable and most broadcasting service tiers while maintaining price discipline. With a view to addressing the competitive challenge from digital satellite and microwave distribution systems, the Cable Sector is currently implementing an aggressive digital service deployment plan. There is no assurance, however, that no material erosion of the Cable Sector's customer base or

retail pricing for broadcasting distribution services will occur in the coming years. The Cable Sector's high-speed Internet services have enjoyed vigorous growth during the last fiscal year and demand for these services shows no sign of weakening. The impact on the Cable Sector's Internet services and revenue resulting from mandated resale of these services and subsequent tariffed access to cable telecommunications facilities for third-party Internet service providers cannot however be properly assessed at this time. While the Cable Sector has identified the residential and small business market segments in its cabled areas as the principal avenue for its competitive entry into voice telecommunications, a full-feature IP-based telephone service for these market segments is still under development. Commercial roll-out and successful market entry in voice telecommunications are subject to various technological, systems integration, regulatory and pricing uncertainties at this time.

While increasingly market-driven, the activities of the cable industry in Canada continue to be subject to complex and evolving regulatory frameworks respectively under the Broadcasting Act (Canada) and the Telecommunications Act (Canada). The Canadian Radio-television and Telecommunications Commission (CRTC) tightly regulates the terms and conditions for the distribution and packaging of broadcasting services by cable and other distributors. The CRTC also imposes access to cable distribution for Canadian programming services, and has recently mandated the distribution of two Canadian television services on basic cable without compensation to the cable distributor. Wholesale fees and other commercial terms for the distribution of three English-language and four French-language new Canadian specialty television networks have not been concluded to date. The CRTC issued on September 28, 1999, a landmark decision on terms for access by cable undertakings to supporting structures owned by municipal power utilities, but terms for access to other supporting structures, rights-of-way, housing developments and multi-unit dwellings remain subject to unresolved negotiations or disputes in several instances. Pending CRTC proceedings, particularly proceedings concerning tariffed access to cable facilities for third-party Internet service providers and the treatment of inside wiring in buildings, may have an unfavourable impact on certain of the Cable Sector's lines of business activities, depending on their final outcome, which is not known at this time. Cogeco Cable has applied to the Federal Court of Appeal for leave to appeal Telecom Decision CRTC 99-11 mandating, as of December 13, 1999, the resale by third parties of its high-speed retail Internet services at a 25% discount from the lowest retail rates charged for these services until such time as third party access tariffs are approved. The outcome of this judicial proceeding cannot be determined at this time.

A key uncertainty faced by the Media Sector is the speed and extent of the development of competitive video and audio entertainment programming services over the Internet and through other alternative forms of electronic distribution, often referred to as new media, which the CRTC has decided not to regulate until further notice. The impact of new media services on the audience and advertising market share of conventional television and radio stations has not been material to date, but the situation may change in the next few years. At the same time, new media provide an opportunity for the Media Sector to extend the reach of certain of its services and to add new products and services to its activities in the coming years.

## Year 2000 Issue

The Year 2000 ("Y2K") issue arises from the design of some computerized systems which recognize only two digits for the year in the date fields and, as a result, may incorrectly interpret dates beyond the year 1999. Such incorrect recognition has the potential to disrupt business processes or activities supported or influenced by these computerized systems unless they are modified or replaced.

The Company uses various computerized systems in connection with its business processes and activities and is aware of the potential adverse impact that the Y2K issue could have on its operations and financial performance. In order to address the Y2K issue, the Company established in July 1997 an internal working

group comprised of operations and information systems managers headed by the Vice-President, Engineering and Corporate Development of Cogeco Cable (the "Y2K Committee") and, also in July 1997, retained the services of an outside firm, CGI Information Systems and Management Consultants Inc., with a view to developing and implementing the Company's plan for dealing with the Y2K issue (the "Y2K Plan"). The Y2K Committee reports on its progress to the President and Chief Executive Officer on an ongoing basis and to the Board of Directors on a periodic basis.

The Y2K Plan, which was initially approved by the Board of Directors in October 1997, includes an inventory of computer operating systems and computer software programmes used by the Company, an assessment of their critical importance with respect to the Company's activities, an assessment of their Y2K compliance status, and a list of Y2K compliance measures and related timetable in order to ensure Y2K compliance as required. These elements of the Y2K Plan have now been completed and the Company is in the process of implementing the Y2K compliance measures. This process is now substantially completed with the implementation of the last remaining critical computer software programme updates this fall.

Since the Company's critical computerized systems, including cable customer management and accounting systems, with the exception of one internally modified accounting system, have been supplied by third parties, Y2K compliance measures for such systems involve third party compliance certification procedures followed by Y2K compliance testing procedures. All new computerized systems acquisitions from third parties are subject to Y2K compliance requirements. Furthermore, the Company continues to assess the readiness of its other key suppliers and contractors with respect to their transition to Y2K. Other aspects of the Company's business, of course, are partially dependent upon the Y2K readiness of the suppliers of services to the Company.

The Company believes that it is taking reasonable steps to ensure that its computerized systems will not be materially adversely affected by the Y2K issue. However, the state of readiness of key suppliers and other third parties in this regard could affect the Company's operations. The Company believes that, based on the current status of the Y2K Plan and related Y2K compliance measures, completed and planned modifications and replacements of its internally-used critical computerized systems and equipment will allow it to be Y2K compliant in a timely manner. It is not possible however to be certain that all aspects of the Y2K issue affecting the Company will be fully resolved at the appropriate time. The Company has developed a special internal contingency plan to ensure that all critical systems are closely monitored before, during and after the transition to Y2K and that any unforeseen problems are promptly addressed.

Based on current information, the Company estimates that the cost of the Y2K Plan and related Y2K compliance measures will amount to approximately $1 million in the aggregate, over and above the capital asset replacement costs to be incurred by the Company in the normal course of business, and that it will not therefore materially adversely affect the Company's financial results.

The preceding Y2K readiness disclosure contains forward-looking statements which represent the Company's beliefs or expectations regarding future events. They involve a number of risks and uncertainties that could cause actual results to differ materially from projected results. Factors that may cause these differences include, but are not limited to, the availability of qualified personnel and other information technology resources, the ability to identify and correct all date sensitive lines of computer codes, as well as actions of governmental agencies or other third parties with respect to Y2K procedures.

## Forward Looking Financial Expectations

Over the next few years, Cogeco Cable will continue its intensive capital expenditure program to extend and upgrade its systems, particularly those most recently acquired, so that it remains competitive in the new broadband environment. In addition, capital expenditure will be required to support the growth in the high-speed Internet access service and the launch of the digital video service. These required investments will not be entirely financed from cash flow from operations. This will result in an increased reliance on loans and capital leverage. Cogeco Cable intends to deploy capital in the competitive access telecommunications services and IP telephony. It is expected that such investments will become more revenue driven as equipment should shift to customers' premises. This new equipment, whose standards will comply with the criteria established by the North American cable industry, will be financed by Cogeco Cable. The cable industry anticipates that the new standardized equipment will be sold through retail channels and, as a consequence, Cogeco Cable's capital expenditures, related to this equipment, could decrease. However there is no assurance that these new services will generate the revenue and the cash flow from operations required to support those investments.

For the fiscal year 1999-2000, Cogeco Cable foresees a stagnation in the growth of subscriptions to broadcasting distribution services, as a result of expected increased competition in the areas it serves. However, Cogeco Cable projects significant growth of its revenue from the expected increased penetration of its high-speed Internet access service and the launch of its digital service. For the fiscal year 1999-2000, Cogeco Cable foresees an increase in its operating costs, mainly as a result of increased network fees and increased contributions to the independent Canadian programming funds. The anticipated increase in operating costs could have an impact on the operating margin before depreciation and amortization of Cogeco Cable. It is currently impossible to quantify the cumulative effects of these changes on Cogeco Cable's revenue, cash flow and net income.


# business sense

## Contents



# Consolidated Financial Statements

## Management's Responsibility

### Related to Consolidated Financial Statements

The consolidated financial statements of COGECO Inc. and the financial information contained in this annual report are the responsibility of management. The financial statements include amounts determined by management based on estimates which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that in the financial statements.

In fulfilling its responsibilities, management of COGECO Inc. and its subsidiaries have developed and continue to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Company and recommends their approval to the Board of Directors. The committee periodically meets with management and the external auditors to discuss the results of the external and internal examinations and matters having an impact on financial information.

The external auditors appointed by the shareholders, Samson Bélair/Deloitte & Touche, Chartered Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards and to issue an opinion on the statements. The external auditors have free access to the Audit Committee, with or without the presence of management. Their report follows.

**Louis Audet**
President and Chief Executive Officer

**Pierre Gagné**
Vice-President, Finance and Chief Financial Officer

## Auditors' Report

### To the Shareholders of COGECO Inc.

We have audited the consolidated balance sheets of COGECO Inc. as at August 31, 1999 and 1998 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Samson Bélair Deloitte & Touche

Chartered Accountants
October 8, 1999

# Consolidated Statements of Income

**Years ended August 31,**
(in thousands of dollars, except per share data)

| | 1999 | 1998 |
|---|---|---|
| **Revenue** | $ 358,875 | $ 316,132 |
| Operating costs | 210,866 | 181,703 |
| Operating income before depreciation and amortization | 148,009 | 134,429 |
| Depreciation and amortization (NOTE 3) | 52,195 | 43,820 |
| Operating income before unusual items | 95,814 | 90,609 |
| Unusual items (NOTE 4) | 46,090 | 20,216 |
| Operating income | 141,904 | 110,825 |
| Financial expense | 47,312 | 47,652 |
| Income before income taxes and the following items | 94,592 | 63,173 |
| Income taxes (NOTE 5) | 27,386 | 29,218 |
| Non-controlling interest | 13,875 | 13,641 |
| Share in the results of an affiliated company | 80 | 106 |
| **Net income** | $ 53,251 | $ 20,208 |
| **Per share** | | |
| **Net income** | | |
| **Basic** | $ 3.33 | $ 1.27 |
| **Fully diluted** | 3.21 | 1.23 |
| Weighted average number of outstanding multiple voting shares and subordinate voting shares | 15,998,470 | 15,900,932 |

# Consolidated Statements of Retained Earnings

**Years ended August 31,**
(in thousands of dollars)

| | 1999 | 1998 |
|---|---|---|
| Balance at beginning | $ 75,157 | $ 58,388 |
| Net income | 53,251 | 20,208 |
| Excess of price paid over the attributed value of shares redeemed | (109) | (259) |
| Dividends on multiple voting shares | (400) | (384) |
| Dividends on subordinate voting shares | (2,963) | (2,796) |
| Balance at end | $ 124,936 | $ 75,157 |

# Consolidated Balance Sheets

As at August 31,
(in thousands of dollars)

| | 1999 | 1998 |
|---|---|---|
| **Assets** | | |
| Fixed assets (NOTE 7) | $ 476,992 | $ 387,513 |
| Broadcasting licences and customer base (NOTE 8) | 594,588 | 604,883 |
| Deferred charges | 23,719 | 24,323 |
| Investments (NOTE 9) | 11,227 | 8,190 |
| Accounts receivable | 41,514 | 38,616 |
| Prepaid expenses | 5,018 | 9,122 |
| | $ 1,153,058 | $ 1,072,647 |
| **Liabilities and Shareholders' equity** | | |
| **Liabilities** | | |
| Long-term debt (NOTE 11) | $ 480,644 | $ 628,732 |
| Bank indebtedness | 12,308 | 7,152 |
| Accounts payable and accrued liabilities | 84,623 | 59,079 |
| Deferred income and prepaid services | 12,096 | 15,471 |
| Deferred income taxes | 78,827 | 54,753 |
| Non-controlling interest | 246,752 | 120,306 |
| | 915,250 | 885,493 |
| **Shareholders' equity** | | |
| Capital stock (NOTE 12) | 112,872 | 111,997 |
| Retained earnings | 124,936 | 75,157 |
| | 237,808 | 187,154 |
| | $ 1,153,058 | $ 1,072,647 |

**On behalf of the Board of Directors**

Maurice Myrand
Director

Henri P. Labelle
Director

# Consolidated Statements of Cash Flow

**Years ended August 31,**
(in thousands of dollars, except per share data)

| | 1999 | 1998 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net income | $ 53,251 | $ 20,208 |
| Unusual items net of related income taxes and non-controlling interest | (39,878) | (7,553) |
| Net income from ongoing operations | 13,373 | 12,655 |
| Items not affecting cash and cash equivalents | | |
| Depreciation and amortization | 52,195 | 43,820 |
| Amortization of long-term financing costs | 2,544 | 5,012 |
| Deferred income taxes | 26,636 | 25,958 |
| Deferred income taxes related to unusual items | (3,440) | (7,330) |
| Non-controlling interest | 13,875 | 13,641 |
| Portion of unusual items attributable to non-controlling interest | (3,217) | (5,437) |
| Other | 1,170 | 843 |
| **Cash flow from ongoing operations** | 103,136 | 89,162 |
| Current income taxes related to unusual items | 445 | 104 |
| Change in non-cash working capital items (NOTE 14) | 22,942 | (4,031) |
| | 126,523 | 85,235 |
| **Cash flow from investing activities** | | |
| Acquisition of fixed assets (NOTE 14) | (136,504) | (82,489) |
| Increase in deferred charges | (14,074) | (12,088) |
| Acquisition of investments | (2,258) | (2,062) |
| Proceeds on disposal of investments | 380 | 3,153 |
| Business acquisitions (NOTE 2) | (19,554) | (63,093) |
| Proceeds on disposal of businesses (NOTE 2) | 48,325 | – |
| Deposit on business acquisition | (5,000) | – |
| Other | 1,055 | (1,863) |
| | (127,630) | (158,442) |
| **Cash flow from financing activities** | | |
| Increase in long-term debt | 228,267 | 80,000 |
| Repayment of long-term debt | (378,452) | (46,115) |
| Issue of subordinate voting shares | 950 | 418 |
| Purchase of subordinate voting shares for cancellation | (184) | (615) |
| Dividends paid by the Company on multiple voting shares | (400) | (384) |
| Dividends paid by the Company on subordinate voting shares | (2,963) | (2,796) |
| Issues of subordinate voting shares by a subsidiary to non-controlling interest, net of issue costs | 152,374 | 185 |
| Purchase of subordinate voting shares for cancellation by a subsidiary | (116) | (825) |
| Dividends paid by a subsidiary to non-controlling interest | (3,525) | (2,717) |
| | (4,049) | 27,151 |
| **Net change in cash and cash equivalents** | (5,156) | (46,056) |
| **Cash and cash equivalents at beginning** | (7,152) | 38,904 |
| **Cash and cash equivalents at end** | $ (12,308) | $ (7,152) |
| **Per share** | | |
| **Cash flow from ongoing operations** | | |
| **Basic** | $ 6.45 | $ 5.61 |
| **Fully diluted** | 6.21 | 5.38 |

Cash and cash equivalents comprise bank indebtedness.

Years ended August 31, 1999 and 1998
(amounts in tables are in thousands of dollars except per share data)

## 1. Significant Accounting Policies

### Consolidation Principle

The consolidated financial statements include the accounts of the Company and its subsidiaries. Business acquisitions are accounted for under the purchase method and operating results are included in the consolidated financial statements as of the date of the acquisition of control. Other investments are recorded at cost, except for an investment of 20% by Cogeco Radio-Television Inc. in a general partnership, Canal Indigo, which is accounted for under the equity method.

Business sectors and percentage in interest of the main subsidiaries are as follows:

| Sector | Principal subsidiary | Percentage of interest |
|---|---|---|
| Cable | Cogeco Cable Inc. | 47% (90% of voting rights) |
| Media | Cogeco Radio-Television Inc. | 100% (100% of voting rights) |

### Fixed Assets

Fixed assets are recorded at cost. Depreciation is provided principally on a straight-line method over the estimated useful lives and the following periods:

| | |
|---|---|
| Buildings | 20 to 40 years |
| Cable systems | 15 years |
| Broadcasting and production equipment | 5 to 20 years |
| Equipment under capital leases | 5 to 15 years |
| Other | 2 to10 years |

### Broadcasting Licences and Customer Base

The broadcasting licences represent the excess of the broadcasting station purchase price over the value assigned to the net tangible assets acquired. These licences are amortized on a straight-line method over 40 years.

The customer base represents the excess of the purchase price of cable systems over the value assigned to the net tangible assets acquired. The customer base is amortized using the sinking fund method at an interest rate of 5% over 40 years.

Annually, the Company reviews the net carrying amount of the broadcasting licences and customer base to determine the risk of a permanent reduction in value. This revision is achieved by taking into consideration recent transactions concluded in the respective industry, as well as undiscounted expected future operating cash flow.

### Deferred Charges

Deferred charges primarily include new services launch costs and financing costs. These costs are amortized using the straight-line method, over a period not exceeding five years.

### Derivative Financial Instruments

The Company and its subsidiary Cogeco Cable Inc. use derivative financial instruments to manage risks from fluctuations in interest rates. These instruments include interest rate swap and cap agreements. These financial instruments are accounted for as hedges and the book value is not adjusted to reflect the current market value. These financial instruments are accounted for under the accrual method. The net receipts or payments arising from derivative financial instruments relating to interest are recognized in financial expense.

## 1. Significant Accounting Policies (cont'd)

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the revenues and expenses during the reporting year. Actual results could differ from those estimates.

## 2. Acquisition and Disposal of Businesses

### i) Acquisitions

On September 1, 1998, the Company's subsidiary, Cogeco Cable Inc., acquired cable systems from Valleyfield Transvision inc. and Emtel inc.

On November 30 1998, the subsidiary of the Company, Cogeco Radio-Television Inc., completed the acquisition of television stations CKTV-TV and CFRS-TV located in Chicoutimi/Jonquière, Quebec, from Radio-Saguenay ltée.

On December 15, 1997, the Company's subsidiary, Cogeco Cable Inc., acquired cable systems from Câblodistribution Le Rocher inc. Furthermore, on June 30, 1998, Cogeco Cable Inc. completed an exchange of certain cable systems with Shaw Communications Inc.

The net assets acquired and the consideration for these transactions are as follows:

| | 1999 | 1998 |
|---|---|---|
| **Assets acquired** | | |
| Cash | $ – | $ 48 |
| Working capital (deficiency) | 316 | (1,676) |
| Fixed assets | 3,981 | 34,634 |
| Broadcasting licences and customer base | 15,239 | 154,800 |
| Deferred charges | 69 | – |
| | 19,605 | 187,806 |
| **Assumed liabilities** | | |
| Deferred income taxes | 51 | 833 |
| **Net purchase price** | $ 19,554 | $ 186,973 |
| **Consideration** | | |
| Cash | $ 19,554 | $ 63,141 |
| Value attributable to cable systems sold to Shaw Communications Inc. | – | 120,864 |
| Balance payable | – | 1,968 |
| Subordinate voting shares of Cogeco Cable Inc. | – | 1,000 |
| | $ 19,554 | $ 186,973 |

### ii) Disposals

On December 17, 1998, the Company's subsidiary, Cogeco Cable Inc., sold its cable systems located in Weyburn and Estevan, Saskatchewan. The proceeds of disposal amounted to $10.7 million, generating a gain before income taxes of $3.5 million.

On May 31, 1999, the Company's subsidiary, Cogeco Cable Inc., sold its cable systems located in Chilliwack, British Columbia. The proceeds of disposal amounted to $37.6 million, generating a gain before income taxes of $17.9 million.

## 3. Depreciation and Amortization

| | 1999 | 1998 |
|---|---|---|
| Fixed assets | $ 40,776 | $ 34,987 |
| Broadcasting licences and customer base | 6,982 | 6,267 |
| Deferred charges | 4,437 | 2,566 |
| | $ 52,195 | $ 43,820 |

## 4. Unusual Items

| | 1999 | 1998 |
|---|---|---|
| Gain on dilution subsequent to share issues by a subsidiary | $ 38,775 | $ 135 |
| Gain on sale of cable systems | 21,399 | 19,455 |
| Write-off of certain deferred charges | (7,817) | – |
| Write-off of certain fixed assets | (4,002) | – |
| Reduction in the value of the investment in TQS Inc. | (4,137) | – |
| Gain on disposal of shares of Le Groupe Coscient Inc. | – | 876 |
| Other | 1,872 | (250) |
| | $ 46,090 | $ 20,216 |
| Net income excluding unusual items, net of income taxes | $ 13,373 | $ 12,655 |
| Per share | | |
| Net income excluding unusual items, net of income taxes | | |
| **Basic** | $ 0.84 | $ 0.80 |
| **Fully diluted** | $ 0.81 | $ 0.77 |

During the year, the gain on dilution resulted from the issues of subordinate voting shares by Cogeco Cable Inc. The details of these issues are as follows: a first issue of 3,450,000 shares at a price of $19.35 per share for a total amount of $66.8 million and a second issue of 3,000,000 shares at a price of $30.50 per share for a total amount of $91.5 million. Subsequent to these issues, the ownership of the Company in Cogeco Cable Inc. went from 58.1% to 46.8%.

Last year, the gain on dilution resulted from the issue of 78,125 subordinate voting shares by Cogeco Cable Inc. related to the acquisition of Câblodistribution Le Rocher inc. The shares were issued at a price of $12.80 for an amount of $1 million.

## 5. Income Taxes

| | 1999 | 1998 |
|---|---|---|
| Current | $ 750 | $ 3,260 |
| Deferred | 26,636 | 25,958 |
| | $ 27,386 | $ 29,218 |

The following table provides the reconciliation between the statutory federal and provincial income taxes and effective consolidated income tax rate:

| | 1999 | 1998 |
|---|---|---|
| Combined income tax rate of 44.3% (44.6% in 1998) | $ 24,520 | $ 28,099 |
| Non-taxable portion of gain on sale of cable systems | (2,397) | (2,170) |
| Non-deductible amount arising from the reduction in the value of an investment | 1,583 | – |
| Income taxes arising from the non-deductible amortization of broadcasting licences, customer base and deferred charges | 1,582 | 1,550 |
| Large corporation and corporate minimum taxes | 1,731 | 1,473 |
| Other | 367 | 266 |
| **Income taxes at the effective income tax rate** | $ 27,386 | $ 29,218 |
| **Effective income tax rate** | 49.5 % | 46.3 % |

## 6. Segmented Information

The Company's activities are divided into two sectors, Cable and Media: The Cable sector is comprised of all cable operations and the Media sector is comprised of radio and television operations.

The principal financial information per sector of activity is presented in the table below:

| | Cable | | Media | | Head office and eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| Revenue | $ 325,367 | $ 286,858 | $ 33,508 | $ 29,274 | $ – | $ – | $ 358,875 | $ 316,132 |
| Operating costs | 186,571 | 160,161 | 25,641 | 22,161 | (1,346) | (619) | 210,866 | 181,703 |
| Operating income before depreciation and amortization | 138,796 | 126,697 | 7,867 | 7,113 | 1,346 | 619 | 148,009 | 134,429 |
| Depreciation and amortization | 49,900 | 42,050 | 2,108 | 1,717 | 187 | 53 | 52,195 | 43,820 |
| Operating income before unusual items | 88,896 | 84,647 | 5,759 | 5,396 | 1,159 | 566 | 95,814 | 90,609 |
| Unusual items | (9,647) | (19,205) | (1,872) | – | (34,571) | (1,011) | (46,090) | (20,216) |
| Financial expense | 43,946 | 43,688 | 3,761 | 2,130 | (395) | 1,834 | 47,312 | 47,652 |
| Income taxes | 25,636 | 27,619 | 506 | 444 | 1,244 | 1,155 | 27,386 | 29,218 |
| Net assets employed | 1,004,772 | 951,649 | 34,835 | 32,558 | 16,732 | 13,890 | 1,056,339 | 998,097 |
| Total assets | 1,097,335 | 1,020,689 | 42,688 | 37,849 | 13,035 | 14,109 | 1,153,058 | 1,072,647 |
| Acquisition of fixed assets | 136,440 | 80,081 | 1,720 | 2,804 | 382 | 540 | 138,542 | 83,425 |

## 7. Fixed Assets

| | 1999 | 1998 |
|---|---|---|
| **Cost** | | |
| Land | $ 3,660 | $ 3,609 |
| Buildings | 20,208 | 16,546 |
| Cable systems | 692,239 | 577,664 |
| Broadcasting and production equipment | 20,671 | 20,542 |
| Equipment under capital leases | 11,125 | 12,788 |
| Other | 9,714 | 8,485 |
| | 757,617 | 639,634 |
| **Accumulated depreciation** | | |
| Buildings | 5,678 | 5,613 |
| Cable systems | 248,392 | 223,822 |
| Broadcasting and production equipment | 14,089 | 14,711 |
| Equipment under capital leases | 6,964 | 3,037 |
| Other | 5,502 | 4,938 |
| | 280,625 | 252,121 |
| | $ 476,992 | $ 387,513 |

## 8. Broadcasting Licences and Customer Base

| | 1999 | 1998 |
|---|---|---|
| **Cost** | | |
| Broadcasting licences | $ 35,787 | $ 31,597 |
| Customer base | 593,291 | 600,809 |
| | 629,078 | 632,406 |
| **Accumulated amortization** | | |
| Broadcasting licences | 5,690 | 4,804 |
| Customer base | 28,800 | 22,719 |
| | 34,490 | 27,523 |
| | $ 594,588 | $ 604,883 |

## 9. Investments

| | | |
|---|---|---|
| TQS Inc. (ownership: 14.5%; 17.9% in 1998) | $ 4,323 | $ 7,183 |
| Deposit on business acquisition | 5,000 | – |
| Other | 1,904 | 1,007 |
| | $ 11,227 | $ 8,190 |

## 10. Bank Indebtedness and Lines of Credit

The lenders of COGECO Inc. are unsecured creditors and ranked equally. Bank indebtedness is unsecured. The provisions of the loan agreement impose restrictions on the operations and activities of the Company. Generally, the most significant restrictions are related to permitted investments, as well as incurrence and maintenance tests, primarily linked to operating cash flow, financial expense and total indebtedness.

As at August 31, 1999, the Company has an unsecured syndicated bank facility governed by term facility, in the form of a term facility of $45 million. The total facility is available until 2000. Thereafter, the facility is reduced quarterly by 2.5% of the total amount of the facility for the first two years and 3.75% for the following years, until 2005 when the balance is due. The term facility requires commitment fees and interest rates are based, at the Company's option, on the bankers' acceptance or bank prime rates.

As at August 31, 1999, the unsecured line of credit of the Company amounts to $5 million. This line of credit is revised periodically and does not require commitment fees.

As at August 31, 1999, the Company's subsidiary, Cogeco Cable Inc., has an agreement with a syndicate of financial institutions for a committed revolving term facility of $700 million. The revolving term facility can be extended from year to year subject to lenders' approval, and is convertible, at any time at Cogeco Cable Inc.'s option, into a six-year term facility declining by 5% upon the first year, declining by an additional 5% every year, up to 25% for the fifth and the sixth year. The revolving term facility requires commitment fees and interest rates are based at Cogeco Cable Inc.'s option, on bankers' acceptance or bank prime rates.

As at August 31, 1999, the line of credit of Cogeco Cable Inc. amounts to $25 million. This line of credit is revised periodically and does not require commitment fees.

The revolving term facility and the operating facility are secured by a first fixed and floating charge on assets of Cogeco Cable Inc. and certain of its subsidiaries except for permitted encumbrances, including purchase money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount in proportion to consolidated assets. The provisions under these facilities provide for restrictions on the operations and activities of Cogeco Cable Inc. Generally, the most significant restrictions are related to permitted investments as well as incurrence and maintenance tests, primarily linked to the Cogeco Cable Inc.'s consolidated operating cash flow, dividends on common shares, reimbursement of long-term debt, financial expense, fixed charges and total indebtedness. Cogeco Cable's credit facilities are not guaranteed by COGECO.

## 11. Long-term Debt

| | Maturity | Interest rate | 1999 | 1998 |
|---|---|---|---|---|
| **COGECO Inc. :** | | | | |
| Term Facility | 2005 | 5.56 %[1] | $ 31,500 | $ 30,700 |
| Other | – | – | 388 | 26 |
| | | | 31,888 | 30,726 |
| **Cogeco Cable Inc. :** | | | | |
| Revolving term facility | 2006 | 5.68 %[1] | 165,000 | 446,000 |
| Senior Secured Debentures, Series "1" | 2009 | 6.75 | 150,000 | – |
| Obligations under capital leases | 2004 | 5.8 - 13.4 | 8,069 | 8,445 |
| Second Secured Debentures, Series "A" | 2007 | 8.44 | 125,000 | 125,000 |
| Promissory note | 1999 | – | | 18,238 |
| Other | – | – | 687 | 323 |
| | | | 448,756 | 598,006 |
| | | | $ 480,644 | $ 628,732 |

(1) Average interest rate on debt as of August 31, 1999, including stamping fees and excluding the impact of interest rate swap and cap agreements.

a) The Company and its subsidiary Cogeco Cable Inc. have entered into interest rate swap and cap agreements with financial institutions, in order to manage interest rate fluctuation. According to these swap agreements, except for the principal amount of $60 million, the Company and its subsidiary Cogeco Cable Inc. pay interest at fixed rates and receive interest based on the three-month bankers' acceptance rate, which is reset quarterly. Under the interest rate cap agreement, Cogeco Cable's interests rate are based on the three-month bankers' acceptance rate, reset quarterly, up to a maximum of 6%. As at August 1999, the details of these agreements are as follows:

| Principal | Interest Rate | Instalment | Maturity | Instrument |
|---|---|---|---|---|
| **COGECO Inc.** | | | | |
| $ 39,000 | 8.95% | Semi-annually | August 2000 | swap |
| **Cogeco Cable Inc.** | | | | |
| $ 10,000 | 10.45 | Quarterly | September 1999 | swap |
| 60,000 | 1.67 [1] | Semi-annually | September 1999 | swap |
| 100,000 | 5.41 | Quarterly | February 2002 | swap |
| 100,000 | 6.00 | Quarterly | February 2002 | cap |

(1) There are two swap agreements of a principal amount of $60 million. According to the first agreement, Cogeco Cable Inc. pays interest at a fixed rate of 10.49% and receives interest based on the three-month bankers' acceptance rate, which is reset quarterly. According to the second agreement, the maturity of which is the same as the first, Cogeco Cable Inc. receives interest at a fixed rate of 10.49% and pays interest based on the three-month bankers' acceptance rate, which is reset quarterly, plus 1.67%.

## 11. Long-term Debt (cont'd)

The amount of bank indebtedness covered by financial instruments is as follows over time:

| 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| $200,000 | $200,000 | $ – | $ – | $ – |

b) On June 4, 1999, the Company's subsidiary, Cogeco Cable Inc., issued Senior Secured Debentures, Series "1" for an amount of $150 million. These debentures are redeemable at the Cogeco Cable Inc.'s option, in whole or in part, at the greater of par value or the Canada yield bond plus 0.3%. These debentures mature on June 4, 2009, and bear interest at 6.75%, payable semi-annually on June 4 and December 4 of each year. These debentures are indirectly secured by a first fixed and floating charge and a security interest on all assets of Cogeco Cable Inc. and certain of its subsidiaries.

c) On July 31, 1997, Cogeco Cable Inc. issued Second Secured Debentures, Series "A" for an amount of $125 million. These debentures are redeemable at Cogeco Cable Inc's option in whole or in part, at the greater of par value or Canada yield bond plus 0.5%. These debentures mature on July 31, 2007, and bear interest at 8.44% payable semi-annually on July 31, and January 31 of each year. These debentures are secured by second fixed charges on certain assets and floating charges on all assets of Cogeco Cable Inc. and its subsidiaries.

d) The promissory note represented the balance of purchase price from the acquisition of certain cable systems from Rogers Cablesystems Limited on November 25, 1996, and was totally reimbursed on November 25, 1998.

e) Principal repayments due within each of the next five years, excluding those under capital leases, are as follows:

| 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| $– | $– | $– | $2,250 | $6,750 |

f) Within each of the next five years, minimum payments due under capital leases total $9,098,000 of which $1,026,000 represent financial expense, and are as follows:

| 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| $2,939 | $2,881 | $2,762 | $473 | $43 |

## 12. Capital Stock

**Authorized, an unlimited number of:**

Preferred shares of first and second rank, issuable in series and non-voting, except when specified in the Articles of Incorporation of the Company or in the Law.

Multiple voting shares, 20 votes per share

Subordinate voting shares, 1 vote per share

| | 1999 | 1998 |
|---|---|---|
| Issued | | |
| 1,907,900 multiple voting shares | $ 12 | $ 12 |
| 14,160,150 subordinate voting shares (13,999,303 in 1998) | 112,860 | 111,985 |
| | $ 112,872 | $ 111,997 |

## 12. Capital Stock (cont'd)

During the year, subordinate voting share transactions were as follows:

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount |
| Balance at beginning | **13,999,303** | **$ 111,985** | 13,933,497 | $ 111,923 |
| Shares issued for cash under the Employee Stock Purchase Plan and the Stock Option Plan | **170,247** | **950** | 87,706 | 418 |
| Multiple voting shares converted in subordinate voting shares | **–** | **–** | 22,600 | – |
| Purchase of shares for cancellation | **(9,400)** | **(75)** | (44,500) | (356) |
| Balance at end | **14,160,150** | **$ 112,860** | 13,999,303 | $ 111,985 |

During the year, pursuant to a normal course issuer bid, the Company purchased for cancellation 9,400 subordinate voting shares (44,500 in 1998), for an amount of $184,000 ($ 615,000 in 1998), and the book value of purchased shares amounted to $75,000 ($356,000 in 1998). The excess of the purchase price over the book value of purchase shares decreased retained earnings by an amount of $109,000 ($259,000 in 1998).

The Company established, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for some executives. Under these plans, there are less than 10% of the outstanding subordinate voting shares available, after deduction of any shares reserved under the Employee Stock Purchase Plan. There are 1,545,700 subordinate voting shares reserved for the purpose of the Stock Option Plan. Under the Employee Stock Purchase Plan, a maximum of 40,000 shares are available annually. Under the Stock Option Plan, the following options were granted by the Company and are as follows as at August 31, 1999:

| Options Granted | Options Exercised | Options Cancelled | Price of Grant | Date Granted | Expiry Date |
|---|---|---|---|---|---|
| 176,871 | 78,296 | 89,100 | $ 2.565 | January 12, 1991 | January 11, 2001 |
| 208,500 | 100,000 | 95,400 | 4.275 | January 10, 1992 | January 9, 2002 |
| 110,000 | 64,000 | 36,000 | 4.725 | October 23, 1992 | October 22, 2002 |
| 174,200 | 16,200 | 104,400 | 9.000 | October 22, 1993 | October 21, 2003 |
| 135,000 | – | 35,000 | 9.675 | December 14, 1993 | December 13, 2003 |
| 123,000 | 6,800 | 36,000 | 8.375 | October 21, 1994 | October 20, 2004 |
| 129,000 | 42,600 | 16,000 | 6.500 | October 27, 1995 | October 26, 2005 |
| 106,000 | 18,400 | – | 6.600 | October 25, 1996 | October 24, 2006 |
| 106,000 | – | – | 10.000 | October 24, 1997 | October 23, 2007 |
| 103,000 | – | – | 14.000 | October 23, 1998 | October 22, 2008 |

## 13. Financial Instruments

### Fair Value

The Company has used the following methods and hypotheses to evaluate fair market value of financial instruments:

**Accounts receivable, bank indebtedness, accounts payable and accrued liabilities:** The carrying amount in the consolidated balance sheets approximates fair value because of the short-term nature of these instruments.

**Investments:** The carrying amount approximates fair value of investments.

**Long-term debt:**

a) Financial expense under the terms of the term facility and the revolving term facility is based upon banker's acceptance or bank prime rates. Therefore, carrying value is considered to represent fair market value for bank indebtedness under the terms of the credit facilities.

b) The carrying value of obligations under capital leases, promissory note and other items of the long-term debt approximates fair value of these financial instruments.

c) The fair value of the Senior Secured Debentures, Series "1" and the Second Secured Debentures, Series "A" is based upon current trading values of similar financial instruments.

d) The fair value of the derivative financial instruments is based upon available information about the financial instruments and the market conditions.

The estimated fair values of long-term debt instruments and derivatives instruments are as follows:

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | Carrying Amount | Estimated Fair Value |
| Long-term debt | **$ 480,644** | **$ 482,019** | $ 628,732 | $ 625,020 |
| Derivative financial instruments, asset (liability) position: | | | | |
| Interest rate swaps and cap | **2,033** | **219** | 2,874 | (2,107) |

Estimated fair value is calculated, as at August 31, 1999 and 1998, based on information about the financial instruments and relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

### Credit Risks

For the Company, the credit risk arises from the possibility that the counterparties to the interest rate swap and cap agreements may default on their obligations. The Company reduces risks by effecting transactions with financial institutions that carry a credit rating of AA$^-$ and above. In addition, since the Company has a large and diversified clientele, the credit risk concentration from the customers is reduced to a minimum.

## 14. Statements of Cash Flow

| | 1999 | 1998 |
|---|---|---|
| **i) Change in non-cash working capital items** | | |
| Accounts receivable | $ (2,898) | $ (12,028) |
| Prepaid expenses | 4,104 | (2,086) |
| Accounts payable and accrued liabilities | 25,544 | 11,065 |
| Deferred income and prepaid services | (3,375) | 3,899 |
| Working capital related to business acquisitions | 316 | (1,676) |
| Other | (749) | (3,205) |
| | $ 22,942 | $ (4,031) |

**ii) Fixed assets**

During the year, fixed assets were acquired for an amount of $138,542,000 ($83,425,000 in 1998), $2,038,000 ($936,000 in 1998) of which was acquired through leases. Disbursements amounting to $136,504,000 ($82,489,000 in 1998) were made for the purchase of fixed assets.

**iii) Other information**

| | 1999 | 1998 |
|---|---|---|
| Interest paid | $ 37,183 | $ 44,575 |
| Current income taxes paid | 7,658 | 7,657 |

## 15. Pension Plans

The Company and its subsidiaries offer to their employees contributory defined benefit pension plans, a defined contribution pension plan or a collective registered retirement savings plan. For the last two plans, the only obligation of the Company and its subsidiaries is to pay the monthly employer's portion.

The defined benefit pension plans provide pensions based on the number of years of service and the average salary during the employment of each participant. Based on actuarial estimates, the accrued pension benefits and the assets available to provide for these benefits, as at August 31, 1999, are $6,002,000 and $6,842,000 respectively ($5,451,000 and $6,218,000, respectively, in 1998).

In addition, the Company and its subsidiaries offer to some executives supplementary pension plans. The present value of the accrued pension benefits and the assets available to provide for these benefits, as at August 31, 1999, amount to $6,725,000 and $3,801,000, respectively ($6,664,000 and $3,188,000, respectively, in 1998).

The total pension costs amount to $1,915,000 for the year ended August 31, 1999 ($1,685,000 in 1998).

## 16. Commitments

As at August 31, 1999 the Company and its subsidiaries are committed under lease agreements to pay annual rent as follows:

| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 and thereafter |
|---|---|---|---|---|---|
| $8,504 | $7,515 | $7,006 | $6,623 | $6,592 | $8,620 |

## 17. Uncertainty Due to Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

## 18. Subsequent Event

On April 7, 1999, the Company's subsidiary, Cogeco Cable Inc., announced that it had signed an agreement with the shareholders of Cableworks Communications Inc. ("Cableworks") for the acquisition of cable systems serving approximately 65,000 basic service customers. Cableworks operates cable systems covering extensive territories in Southern Ontario, including part of the cities of Hamilton and Stoney Creek, the municipalities of Fergus, Grimsby and Halton, and the neighbouring regions. In April 1999, Cogeco Cable Inc. paid a $5 million cash deposit and on September 30, 1999, Cogeco Cable Inc. completed this acquisition with a cash instalment, subject to closing adjustments, of $157.5 million financed from its available bank credit.

# Selected Quarterly Information

**Quarters ended**
(in thousands of dollars, except per share data)

## Operating Results

| | 1999 | | | | | 1998 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total |
| Revenue | $ 89,515 | $ 88,929 | $ 92,679 | $ 87,752 | $ 358,875 | $ 76,272 | $ 76,523 | $ 82,394 | $ 80,943 | $ 316,132 |
| Operating income before depreciation and amortization | 36,825 | 35,706 | 39,015 | 36,463 | 148,009 | 32,364 | 31,366 | 34,994 | 35,705 | 134,429 |
| Operating income before unusual items | 24,393 | 22,750 | 25,677 | 22,994 | 95,814 | 22,034 | 20,657 | 23,551 | 24,367 | 90,609 |
| Income before income taxes | 11,865 | 24,200 | 21,993 | 36,534 | 94,592 | 10,771 | 8,762 | 11,786 | 31,854 | 63,173 |
| Net income excluding unusual items | 3,754 | 2,700 | 3,936 | 2,983 | 13,373 | 3,495 | 2,317 | 3,928 | 2,915 | 12,655 |
| Net income | 3,754 | 13,919 | 8,114 | 27,464 | 53,251 | 3,495 | 2,306 | 3,928 | 10,479 | 20,208 |

## Per Share Data[1]

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income excluding unusual items | | | | | | | | | | |
| – basic | $ 0.24 | $ 0.17 | $ 0.25 | $ 0.19 | $ 0.84 | $ 0.22 | $ 0.15 | $ 0.25 | $ 0.18 | $ 0.80 |
| – fully diluted | 0.23 | 0.16 | 0.24 | 0.18 | 0.81 | 0.21 | 0.14 | 0.24 | 0.18 | 0.77 |
| Net income | | | | | | | | | | |
| – basic | 0.24 | 0.87 | 0.51 | 1.71 | 3.33 | 0.22 | 0.15 | 0.25 | 0.66 | 1.27 |
| – fully diluted | 0.23 | 0.84 | 0.49 | 1.65 | 3.21 | 0.21 | 0.14 | 0.24 | 0.63 | 1.23 |
| Cash flow from ongoing operations | | | | | | | | | | |
| – basic | 1.50 | 1,52 | 1.63 | 1.81 | 6.45 | 1.31 | 1.26 | 1.44 | 1.59 | 5.61 |
| – fully diluted | 1.43 | 1.46 | 1.56 | 1.74 | 6.21 | 1.26 | 1.21 | 1.38 | 1.53 | 5.38 |

*(1) The addition of quarterly per share data information may not correspond to the total given the fluctuation of shares outstanding.*

**Quarters ended**
(in dollars, except share volumes)

## Trading Statistics

| THE MONTREAL EXCHANGE | 1999 | | | | | 1998 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total |
| High | $ 18.45 | $ 29.00 | $ 31.50 | $ 29.00 | | $ 11.80 | $ 12.95 | $ 15.75 | $ 18.15 | |
| Low | 11.20 | 17.65 | 22.50 | 20.00 | | 9.05 | 10.75 | 12.35 | 13.15 | |
| Close | 17.75 | 23.75 | 28.90 | 22.30 | | 10.60 | 12.45 | 15.20 | 13.25 | |
| Volume (in shares) | 473,445 | 2,103,100 | 661,722 | 335,650 | 3,573,917 | 1,163,623 | 984,945 | 1,008,409 | 898,718 | 4,055,695 |

| THE TORONTO STOCK EXCHANGE | 1999 | | | | | 1998 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total | Nov. 30 | Feb. 28 | May 31 | Aug. 31 | Total |
| High | $ 18.25 | $ 29.00 | $ 31.05 | $ 28.50 | | $ 11.90 | $ 12.85 | $ 15.60 | $ 18.10 | |
| Low | 11.50 | 17.90 | 22.50 | 20.00 | | 9.25 | 10.75 | 12.40 | 13.25 | |
| Close | 17.75 | 23.75 | 28.50 | 22.25 | | 11.35 | 12.45 | 15.25 | 13.65 | |
| Volume (in shares) | 129,225 | 1,269,218 | 535,202 | 561,672 | 2,495,317 | 947,076 | 952,838 | 306,179 | 490,583 | 2,696,676 |

# Ten-Year Financial Highlights

**Years ended August 31,**
(in thousands of dollars except other statistics, per share data and ratios)

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| **Operating Results** | | | |
| Revenue | **$ 358,875** | $ 316,132 | $ 274,516 |
| Operating income before depreciation and amortization | **148,009** | 134,429 | 110,278 |
| Operating income before unusual items | **95,814** | 90,609 | 74,017 |
| Financial expense | **47,312** | 47,652 | 35,703 |
| Income before income taxes | **94,592** | 63,173 | 41,692 |
| Net income excluding unusual items | **13,373** | 12,655 | 12,452 |
| Net income | **53,251** | 20,208 | 18,430 |
| Cash flow from ongoing operations | **103,136** | 89,162 | 70,620 |
| **Investments** | | | |
| Capital expenditures | **138,542** | 83,425 | 61,546 |
| Business acquisitions | **19,554** | 66,061 | 368,343 |
| **Financial condition** | | | |
| Fixed assets | **476,992** | 387,513 | 324,146 |
| Net assets employed(1) | **1,056,339** | 998,097 | 864,023 |
| Total assets | **1,153,058** | 1,072,647 | 962,513 |
| Total indebtedness | **492,952** | 635,884 | 594,031 |
| Shareholders' equity | **237,808** | 187,154 | 170,323 |
| **Other statistics** | | | |
| Number of shares outstanding at year end | **16,068,050** | 15,907,203 | 15,863,997 |
| Weighted average number of outstanding shares | **15,998,470** | 15,900,932 | 16,890,465 |
| **Per share data** | | | |
| Operating income before depreciation and amortization | **9.25** | 8.45 | 6.53 |
| Net income (loss) excluding unusual items | **0.84** | 0.80 | 0.74 |
| Net income (loss) | **3.33** | 1.27 | 1.09 |
| Cash flow from ongoing operations | **6.45** | 5.61 | 4.18 |
| Shareholders' equity | **14.80** | 11.77 | 10.74 |
| **Return ratios** | | | |
| Operating margin before depreciation and amortization(2) | **41.2 %** | 42.5 % | 40.2 % |
| Return on average net assets employed(3) | **9.3** | 9.7 | 11.2 |
| Return on average shareholders' equity(4) | **25.1** | 11.3 | 10.8 |
| **Financial ratios** | | | |
| Total indebtedness/Operating income before depreciation and amortization | **3.3(5)** | 4.7(6) | 5.4(7) |
| Interest coverage(8) | **3.1** | 2.8 | 3.1 |
| Total indebtedness/Shareholders' equity | **2.1** | 3.4 | 3.5 |

(1) Total assets less cash and short-term investments, accounts payable and accrued liabilities and deferred revenue and prepaid services.
(2) Operating income before depreciation and amortization/Revenue.
(3) Operating income before unusual items/Average net assets employed.
(4) Net income applicable to multiple voting shares and subordinate voting shares/Average shareholders' equity.
(5) For the fiscal year ended August 31, 1999, the ratio includes financial results of the acquisition of Valleyfield Transvision inc. and Emtel inc. for a twelve-month period, financial results of Weyburn and Estevan cable systems sold on December 17, 1998, for approximately a three-month period only and financial results of the Chilliwack cable system sold on May 31, 1999 for a nine-month period only.
(6) For the fiscal year ended August 31, 1998, the ratio includes financial results of the acquisition of Câblodistribution Le Rocher inc. for a nine-month period only and financial results of cable system exchange with Shaw Communications Inc. for a two-month period only.
(7) For the fiscal year ended August 31, 1997, the ratio includes financial results of the cable systems acquired from Rogers Cablesystems Limited and certain of its affiliates for a nine-month and six-day period only. Furthermore, this ratio does not consider that cash and short-term investments were used subsequently to reduce total indebtedness.
(8) Operating income before depreciation and amortization/Financial expense.

| 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|---|
| $ 214,949 | $ 206,897 | $ 193,622 | $ 190,585 | $ 177,705 | $ 165,499 | $ 116,009 |
| 74,240 | 64,820 | 60,616 | 58,851 | 53,801 | 47,241 | 27,399 |
| 49,770 | 44,142 | 41,700 | 41,811 | 38,169 | 35,336 | 19,050 |
| 23,171 | 22,755 | 20,992 | 29,108 | 33,683 | 34,569 | 13,034 |
| 15,495 | 12,872 | 20,761 | 29,017 | 4,336 | 551 | 6,016 |
| 10,056 | 9,819 | 10,611 | 6,009 | 2,015 | 716 | 4,816 |
| 8 | 5,210 | 10,712 | 22,323 | 1,922 | 500 | 4,816 |
| 42,466 | 41,598 | 36,068 | 27,634 | 20,070 | 12,056 | 11,019 |
| | | | | | | |
| 36,287 | 42,354 | 29,609 | 13,758 | 12,062 | 9,043 | 9,064 |
| 14,376 | – | – | – | 940 | – | 229,632 |
| | | | | | | |
| 170,026 | 149,073 | 122,135 | 105,326 | 103,299 | 102,863 | 49,965 |
| 462,676 | 465,430 | 438,667 | 435,001 | 438,640 | 446,580 | 439,649 |
| 511,772 | 507,434 | 476,912 | 465,640 | 467,576 | 471,818 | 457,311 |
| 231,354 | 229,134 | 208,906 | 217,481 | 278,981 | 285,482 | 280,809 |
| 170,809 | 173,413 | 170,145 | 152,072 | 144,009 | 144,616 | 146,900 |
| | | | | | | |
| 17,718,996 | 17,788,495 | 17,767,036 | 14,329,477 | 9,083,311 | 9,092,349 | 9,160,726 |
| 17,794,707 | 17,784,111 | 16,889,710 | 11,710,172 | 9,094,227 | 9,107,798 | 9,164,997 |
| | | | | | | |
| 4.17 | 3.64 | 3.59 | 5.03 | 5.92 | 5.19 | 2.99 |
| 0.57 | 0.55 | 0.60 | 0.36 | 0.05 | (0.12) | 0.34 |
| – | 0.29 | 0.61 | 1.76 | 0.04 | (0.14) | 0.34 |
| 2.39 | 2.34 | 2.14 | 2.36 | 2.21 | 1.32 | 1.20 |
| 9.64 | 9.75 | 9.58 | 9.20 | 6.24 | 6.30 | 6.50 |
| | | | | | | |
| 34.5 % | 31.3 % | 31.3 % | 30.9 % | 30.3 % | 28.5 % | 23.6 % |
| 10.8 | 9.8 | 9.5 | 9.6 | 8.6 | 8.0 | 6.2 |
| – | 3.0 | 6.8 | 21.8 | 0.3 | (2.2) | 5.9 |
| | | | | | | |
| 3.1 | 3.5 | 3.4 | 3.7 | 5.2 | 6.0 | 10.2 |
| 3.2 | 2.8 | 2.9 | 2.0 | 1.6 | 1.4 | 2.1 |
| 1.3 | 1.3 | 1.2 | 1.4 | 1.9 | 2.0 | 1.9 |

## Statistics
**Cable**

**Years ended August 31,**

| Number of Customers | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|
| Homes passed | 1,103,361 | 1,110,810 | 1,018,106 | 598,234 | 553,058 | 526,800 |
| Basic Service Customers | 765,806 | 777,155 | 740,702 | 440,677 | 422,485 | 418,289 |
| Percent Penetration | 69.4% | 70.0% | 72.8%(3) | 73.7%(3) | 76.4%(3) | 79.4% |
| Discretionary Service Customers | | | | | | |
| Tier 1 | 618,201 | 644,059 | 622,042 | 345,438 | 342,140 | 180,390 |
| Penetration as Percentage of Basic(1) | 80.7% | 82.9% | 84.0%(3) | 78.4%(3) | 81.0%(3) | 83.9% |
| Tier 2 | 353,589 | 363,306 | 335,430 | 133,763 | 128,779 | — |
| Penetration as Percentage of Basic(2) | 68.5% | 67.0% | 65.1% | 61.5% | 59.0% | — |
| Tier 3 | 297,119 | 210,120 | — | — | — | — |
| Penetration as Percentage of Basic(2) | 57.6% | 38.7% | — | — | — | — |
| Pay-TV Service Customers | 74,196 | 81,894 | 73,185 | 45,604 | 44,361 | 42,769 |
| Penetration as Percentage of Basic | 9.7% | 10.5% | 9.9% | 10.3% | 10.5% | 10.2% |
| Internet Service Customers | | | | | | |
| High-Speed Cable Modem | 39,135 | 10,418 | 3,760 | 690 | — | — |
| Telephone | 3,767 | 3,055 | 1,655 | 662 | — | — |

(1) Until January 1, 1995, only available on systems located in provinces other than Quebec.

(2) Only available on systems located in provinces other than Quebec.

(3) Following a recount of homes passed, performed between fiscal year 1995 and 1997, the number of homes passed was adjusted upward and as a result the calculation of basic service penetration was adjusted downward.

| Per Basic Service Customer | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|
| Revenue | $ 416 | $ 379 | $ 355 | $ 354 | $ 329 | $ 304 |
| Network Fees | 116 | 101 | 94 | 94 | 80 | 61 |
| Other Operating Costs | 122 | 111 | 107 | 107 | 114 | 112 |
| Operating Income Before Depreciation and Amortization | 178 | 167 | 154 | 153 | 135 | 131 |
| Capital Expenditures | 178 | 105 | 87 | 80 | 95 | 70 |

| Breakdown per Province | Homes Passed | Basic Service Customers | % of Penetration | Distribution by Province as a % |
|---|---|---|---|---|
| Ontario | 728,857 | 515,988 | 70.8% | 67.4% |
| Quebec | 374,504 | 249,818 | 66.7 | 32.6 |
| Total in Canada | 1,103,361 | 765,806 | 69.4% | 100.0% |

# Investor Information

As at August 31,
(in thousands of dollars, except share information)

| Consolidated Capitalization | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|
| Total indebtedness | $ 492,952 | $ 635,884 | $ 594,031 | $ 231,354 | $ 229,134 | $ 208 906 |
| Shareholders' equity | 237,808 | 187,154 | 170,323 | 170,809 | 173,413 | 170 145 |
| Total | $ 730,760 | $ 823,038 | $ 764,354 | $ 402,163 | $ 402,547 | $ 379 051 |

As at August 31, 1999

## Share Information

| | |
|---|---|
| Number of multiple voting shares (20 votes per share) outstanding | 1,907,900 |
| Number of subordinate voting shares (1 vote per share) outstanding | 14,160,150 |
| Public float on Canadian stock exchanges | 16,068,050 |
| Foreign ownership | Below 10 % |

Stock exchange listings: **The Montreal Exchange**, **The Toronto Stock Exchange**

Trading symbol: CGO

Registrar/Transfer Agent

**General Trust of Canada**

| | |
|---|---|
| 1100 University Street<br>9th floor<br>Montreal, Quebec<br>H3B 2G7<br>Tel.: (514) 871-7171<br>Fax: (514) 871-7442 | 121 King Street West<br>Suite 600<br>Toronto, Ontario<br>M5H 3T9<br>Tel.: (416) 865-7555<br>Fax: (416) 865-7609 |

## Dividend Policy

The Company declared an annual dividend of $0.21 per share, or $0.0525 quarterly, during fiscal year 1998-1999 to the holders of subordinate voting shares and multiple voting shares.

Years ended August 31,
(in dollars, except share volumes)

## Trading Statistics

| | The Montreal Exchange | | | | The Toronto Stock Exchange | | | |
|---|---|---|---|---|---|---|---|---|
| | High | Low | Close | Volume (shares) | High | Low | Close | Volume (shares) |
| 1999 | $ 31.50 | $ 11.20 | $ 22.30 | 3,573,917 | $ 31.05 | $ 11.50 | $ 22.25 | 2,495,317 |
| 1998 | 18.15 | 9.05 | 13.25 | 4,055,695 | 18.10 | 9.25 | 13.65 | 2,696,676 |
| 1997 | 10.85 | 5.95 | 9.95 | 5,570,962 | 10.80 | 6.00 | 9.60 | 2,373,819 |
| 1996 | 8.50 | 5.40 | 6.70 | 3,189,119 | 8.50 | 5.50 | 6.70 | 3,382,585 |
| 1995 | 9.63 | 5.25 | 6.63 | 1,676,212 | 9.38 | 5.25 | 6.63 | 3,316,267 |
| 1994 | 13.50 | 9.13 | 9.38 | 3,138,195 | 13.50 | 9.38 | 9.38 | 2,286,202 |
| 1993 | 9.50 | 5.00 | 9.50 | 7,394,409 | 9.50 | 5.38 | 9.38 | 1,523,793 |
| 1992 | 5.88 | 3.40 | 5.75 | 1,005,300 | 5.75 | 3.40 | 5.75 | 161,033 |
| 1991 | 4.35 | 2.10 | 3.90 | 1,525,284 | 4.35 | 2.10 | 4.10 | 220,115 |
| 1990 | 8.25 | 2.70 | 2.85 | 1,370,266 | 8.38 | 2.70 | 2.85 | 623,584 |

## Cable

### Cogeco Cable Inc.
1 Place Ville Marie
Suite 3636
Montreal, Quebec
H3B 3P2
Tel.: (514) 874-2600
Fax: (514) 874-2625
http://www.cogecocable.com

**Denis Bélanger**
Vice-President,
Engineering and Development

**Louise St-Pierre**
Vice-President,
Information Technology

**Robert White**
Vice-President,
Telecommunications

**J. François Audet**
Director, Business Development
and Special Projects

**Denis Chartier**
Director, Multimedia
and Telecommunications

**Robin Lavoie**
Director, Engineering

### Cable Ontario
5515 North Service Road
P.O. Box 5076 Stn. Main
Burlington, Ontario
L7R 4S6
Tel.: (905) 333-5343
Fax: (905) 332-8426

**Robert J. Barker**
Vice-President
and General Manager

**Kelly Bird**
Vice-President,
Human Resources and
Customer Service

**Rod Fox**
Vice-President,
Information Services

**Darryl Gibbs**
Vice-President,
Technical Operations

**Tom McCutcheon**
Vice-President,
Marketing and
Communications

**Andre Schermel**
Vice-President,
Engineering

**Mark Spence**
Director, Financial
Planning and Analysis

### Cable Quebec
1630 6e Rue
Suite 200
Trois-Rivières, Quebec
G8Y 5B8
Tel.: (819) 372-9292
Fax: (819) 372-3318

**Jacques Bégin**
Vice-President
and General Manager

**Hélène Dubuc**
Vice-President,
Communications and
Programming

**Claude Laferrière**
Vice-President,
Engineering and Operations

**Yves Plamondon**
Vice-President,
Customer Service,
Sales and Marketing

**Yvan Poitras**
Vice-President,
Administration and Control

**Pierre Maheux**
Corporate Controller

## Radio and Television

### Cogeco Radio-Television Inc.
2830 St-Martin Boulevard East
Suite 200
Laval, Quebec H7E 5A1
Tel.: (450) 664-4646
Fax: (450) 664-1777
Toll Free
Line: 1 888 878-4646

**Michel J. Carter**
Vice-President
and General Manager

**Monique Lacharité**
Vice-President,
Administration and Control

**Pierre Boisvert**
Director,
Traffic and Inventory
Management

**Louis Cloutier**
Information System Manager

**Louise Day**
Controller

**Guy Meunier**
Manager,
National Sales

## Television

### CKSH-TV/CFKS-TV
Sherbrooke, Quebec

**Michel Cloutier**
General Manager

**André David**
Assistant General Manager

### CKTM-TV/CFKM-TV
Trois-Rivières, Quebec

**Michel Cloutier**
General Manager

### CKTV-TV/CFRS-TV
Jonquière, Quebec

**Guy Simard**
General Manager

## Radio

### 105.7 Rythme FM (CFGL-FM)
Laval/Montreal, Quebec

**Jacques Boiteau**
General Manager

### CJMF-FM
Quebec City, Quebec

**Geoffrey O. Brown**
General Manager

## Production

### Les Productions Carrefour Inc.
Laval, Quebec

**Jacques W. Lina**
President

# Board of Directors and Management

## Board of Directors

■▲ **Maurice Myrand,**
F.C.A., A.I.F.
Chairman of the Board
Director

■▲ **Henri Audet,**
C.M., D.Sc., Eng.
Chairman Emeritus
Director

■ **Louis Audet,**
M.B.A., Eng.
President and
Chief Executive Officer
Director

• **Robert Bonneau,**
Eng.
Corporate Director
Director

• **Jacqueline L. Boutet,**
C.M.
President
Jacqueline L. Boutet Inc.
Director

• **André Brousseau**
Corporate Director
Director

▲ **Daniel Damov**
Corporate Director
Director

• **Henri P. Labelle**
Architect
Director

**Jan E. Peeters,**
Eng. C.M.A.
President
Olameter Inc.
Director

■ Member of the Executive Committee
• Member of the Audit Committee
▲ Member of the Human Resources Committee

## Management

**Maurice Myrand**
Chairman of the Board

**Louis Audet**
President and
Chief Executive Officer

**Pierre Gagné**
Vice-President, Finance
and Chief Financial Officer

**Yves Mayrand**
Vice-President, Legal Affairs
and Secretary

**Pierre Champagne**
Director, Special Projects and
Internal Audit

**Lynda Desroches**
Corporate Controller

**Christian Jolivet**
Director,
Legal Affairs and
Assistant Secretary

**Andrée Pinard**
Director of
Financial Planning

# Corporate Information

**Head Office**
1 Place Ville Marie
Suite 3636
Montreal, Quebec
H3B 3P2
Tel.: (514) 874-2600
Fax: (514) 874-2625
http://www.cogeco.com

**Annual Meeting**
Shareholders' Annual Meeting will be held at 11 a.m. on Tuesday, December 14, 1999, at the Ritz-Carlton Hotel, Montreal, Gold and Gray Rooms

**Auditors**
Samson Bélair/
Deloitte & Touche
1 Place Ville Marie
Suite 3000
Montreal, Quebec
H3B 4T9

**Legal Counsel**
Byers Casgrain
1 Place Ville Marie
Suite 3900
Montreal, Quebec
H3B 4M7

**General Inquiries**

*Investors and Analysts*
For financial information about the Company, please contact the Department of Finance and Control.

*Shareholders*
For any inquiries other than a change of address, financial information or a change of registration of shares, please contact the Legal Affairs Department.

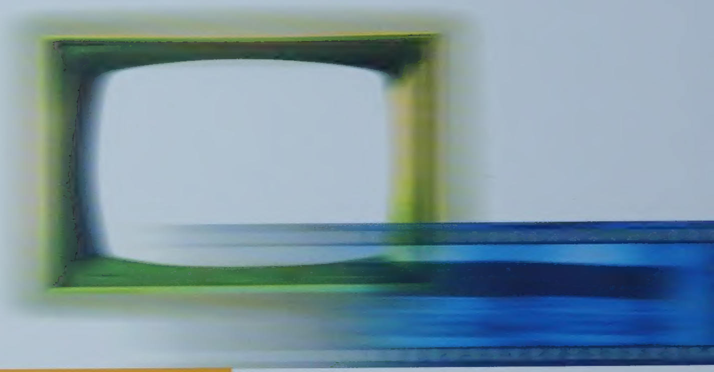
**Duplicate Communications**
Some shareholders may receive more than one copy of publications such as Quarterly Reports and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise General Trust of Canada.

**Quarter ends**
November, February, May

**Year end**
August 31

**Information**
Persons wishing to receive a copy of the Annual Information Form or the Quarterly Reports should call (514) 874-2600.

***Des exemplaires en français du rapport annuel, de la notice annuelle et des rapports trimestriels sont disponibles sur demande au (514) 874-2600.***



www.cogeco.com

COGECO